



Our Ref.: C/EC

25 April 2017

Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
The United States of America

Dear Sir,

IESBA Exposure Draft
***Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and
Related Conforming Amendments***

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft.

We support the proposed revisions in the Exposure Draft. In particular, we agree with the proposal and rationale to extend the scope to prohibit the provision of recruiting services to all audit clients with respect to a director, officer or senior management who are in a position to exert significant influence over the preparation of a client's accounting records or the financial statements.

In the Appendix to this letter, we set out our detailed comments and recommendations where we believe further clarification should be made in the proposed revisions.

If you have any questions regarding the matters raised in our comment letter, please contact Eky Liu, Associate Director of the Standard Setting Department (eky@hkiipa.org.hk).

Yours faithfully,

Chris Joy
Executive Director

CJ/EL
Encl.

Detailed comments on the Exposure Draft

1. Paragraph 603.4 A1 sets out the factors that are relevant in evaluating the level of threat created by providing valuation services to an audit client. We note that the proposed paragraph does not include the following two factors which are included in paragraph 290.172 of the extant Code:

- The availability of established methodologies and professional guidelines; and
- The reliability and extent of the underlying data

We consider that the above two factors are also relevant in evaluating the level of threat created when providing valuation services to an audit client and therefore, recommend the IESBA to include these two factors in the Code.

2. Paragraph 604.4 A2 sets out the factors that are relevant in evaluating the level of threat created by providing taxation services to audit clients. In addition to the factors proposed in the paragraph, we consider that the materiality of the amount involved in the financial statements on which the firm will express an opinion should also be considered by an auditor when evaluating the level of threat created by providing taxation services to audit clients. We recommend that the IESBA includes such a factor in the paragraph.

3. One of the safeguards that the Exposure Draft proposes to address threats created by providing taxation services to an audit client is using tax professionals who are not audit team members to perform the services. We note that the extant Code contains a similar safeguard but does not explicitly require such individual to be a tax professional. We consider that the proposal may imply that the provision of taxation services have to be performed by tax professionals. It is not clear whether the wording in the ED is consistent with the IESBA's intention. We believe that certain types of taxation services, e.g. preparing calculations of current and deferred taxation for an audit client for the purpose of preparing accounting entries, do not necessarily need to be performed by a tax professional. They can be performed by a professional accountant who has knowledge on the matter. Therefore, we recommend that the IESBA reconsiders the safeguard in this context in order to ensure consistent application of the Code.

4. Paragraph 950.4 A3 sets out the factors that are relevant in evaluating the level of threat created by providing a non-assurance service to an assurance client. We note that the following two factors are included in the proposed paragraph:

- The extent of the assurance client's involvement in determining and accepting its responsibilities for those matters where they involve significant professional judgement.
- The extent of the assurance client's involvement in determining significant matters of judgement.

We consider that both factors relate to the extent of a client's involvement in matters which require significant professional judgement; but it is not clear how these two factors are different from each other. Therefore, we recommend that the IESBA clarifies the two factors.

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