



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/EC

Sent electronically through the IESBA Website (www.ethicsboard.org)

18 August 2014

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,

International Ethics Standards Board for Accountants Exposure Draft on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in the ED are set out in the Appendix for your consideration.

We generally agree with most proposals in the ED and with the objectives the IESBA is seeking to achieve. Having said that we recommend the IESBA to include more specific definitions on "suitable skill, knowledge and experience" and "overseeing the service" to facilitate better understanding and application of the proposed prerequisite for non-assurance services.

If you have any questions regarding the matters raised in our comment letter, please contact Ambrose Wong, Associate Director of Standard Setting at ambrose@hki CPA.org.hk.

Yours faithfully,

Simon Riley
Acting Director, Standard Setting

SR/AW

Encl.

Hong Kong Institute of CPAs

International Ethics Standards Board for Accountants Exposure Draft on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients

Emergency Provisions

Question 1

Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

We support the IESBA's proposal to remove the emergency exceptions pertaining to bookkeeping and taxation services under paragraphs 290.174 and 290.186-187.

We note that such emergency exceptions are not commonly used in our jurisdiction. With the exception clause in paragraph 100.11 being retained in the Code, we believe removing the provisions would strengthen the Code by eliminating the potential for misuse of the provisions due to subject terms such as "emergency" and "unusual situations" included in the extant guidance.

Management Responsibilities

Question 2

Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

We consider the proposed change from "significant decisions" to "decisions" in paragraph 290.162 would better reflect the nature of management responsibilities and enhance the clarity of the paragraph.

Question 3

Are the examples of management responsibilities in paragraph 290.163 appropriate?

We consider the examples of management responsibilities in paragraph 290.163 are generally appropriate. Having said that, we recommend the sixth-quoted example to be amended as "having custody of an assurance client's asset, including control or management of bank accounts or investments" for greater clarity.

We have also received recommendations from certain constituents that the first sentence of paragraph 290.163 (i.e. "whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment") should not be deleted. These constituents believe that the deletion of that sentence would not effectively change the existing requirement and it is important to acknowledge that it is not possible for the Code to define every situation the practitioner might encounter given the Code is applied to wide range of services and

adopted on a global basis. The IESBA may wish reconsider the deletion of this concerned sentence.

Question 4

Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

We support the proposed prerequisites set out in paragraph 290.165 in principle and generally believe they help to enhance auditor independence and clarify expectations from client's management in relation to the performance of non-assurance services by an auditor. We believe it is important to ensure auditors are not forced to make significant judgments or discharge management responsibilities, due to the lack of "suitable skill, knowledge and experience" by management and hence unable to appraise the recommendations or services, when delivering non-assurance services.

Under the proposal, auditors would need to ensure client's management designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services.

Despite the IESBA clarifying in the proposal that possessing "suitable skill, knowledge and experience" does not mean the individual would need to possess the expertise to perform or re-perform the services, we believe the description of the term should be more specific and be limited to the designated individual's ability to understand the nature, objective and scope of the non-assurance services.

We also believe "overseeing the service" should not mean that the designated individual would need to supervise the auditor's day-to-day rendering of the services. Rather, we believe the scope of "overseeing the service" should mean the designated individual would agree on the nature, objective, and scope of the services; receive periodic progress reports when appropriate; make all and be responsible for significant judgments; evaluate the adequacy and results of the services; accept responsibility for the service results; and ensure that the resulting work output meets the agreed-upon specifications.

We recommend the IESBA, in considering our above comments, to consider including more specific definitions on "suitable skill, knowledge and experience" and "overseeing the service" to facilitate better understanding and application of the proposed prerequisite for non-assurance services.

We have also received comments from certain constituents, mainly from the small and medium practices sector, that it may be difficult for practitioners to ensure or obtain evidence supporting the management's fulfilment of the three requirements set out in the proposed paragraph 290.165. Instead, these constituents believe that having client's management to represent to the auditor on their fulfilment of those requirements is already a sufficient safeguard to assist auditors not to assume management responsibility. The IESBA may wish to consider these practical concerns to facilitate effective implementation of the proposed requirements.

Question 5

Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

We consider the proposed guidance would, in principle, assist engagement teams to better meet the requirement of not assuming a management responsibility.

We noted that under paragraph 290.171 a firm may provide services related to the preparation of financial statements to an audit client that is not a public interest entity where the service is of a "routine or mechanical nature". One of the examples cited is that preparing of financial statements based on information in the client-approved trial balance is considered "routine or mechanical" and hence, a permissible non-assurance service.

Some professional accountants may consider providing word processing (i.e. typing) assistance in preparing an audit client's financial statements permissible under the Code. Such word processing assistance may involve the provision of a template financial statements (i.e. template financial statements with blanks in the current year's column formatted from audit client's prior year's final financial statements), typing content prepared and approved by the audit client, typing editorial suggestions/comments by the professional accountants, etc.. These activities may not create a significant self-review threat to independence if the audit client takes responsibility for providing the content or takes responsibility by approving the changes to their financial statements.

We note that the Exposure Draft is silent on whether such word processing assistance is within the meaning of "preparation of financial statements". The IESBA may wish to consider such issue and, if needed, clarify its proposed paragraphs 290.171 (for non-public interest entities) and 290.172 (for public interest entities) accordingly.

We have also received comments from a constituent, from a regulatory background, that information disclosed in the notes to financial statements may involve management judgment and decision. The constituent recommends the IESBA to consider providing additional guidance on auditor's independence/management responsibilities in this area.

Please also refer to our responses to question 2-4 for other improvement recommendations.

Question 6

Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

We consider the relocation of the paragraph 290.166 to its own section provides greater clarity to practitioners.

Routine or Mechanical

Question 7

Does the proposed guidance on "routine or mechanical" clarify the term, or is additional guidance needed?

We consider the IESBA may include the following editorial changes to paragraph 290.171 to further enhance clarity of the definition of routine or mechanical services:

"...Services that are routine or mechanical in nature are those that require little to no professional judgment from the professional accountant..."

We consider preparing financial statements where the total number of a client's transactions is limited and all the transactions and/or balances are supported by third party documents (where the auditor is not required to re-compute figures or make any judgment on recognition, classification and measurement of each transaction) constitute a service that is routine or mechanical in nature. We consider the IESBA may consider including such as one of the examples in paragraph 290.171 for guidance by practitioners.

Question 8

Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

We note that "preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction" is quoted as one of the examples of management's responsibilities on preparation and fair presentation of the financial statements in paragraph 290.167.

Moreover, the IESBA may consider to clarify whether preparing or changing source documents by the auditor should be considered routine or mechanical, hence permissible, if the transactions and/or balances are supported by third party documents (where the auditor is not required to re-compute figures or make any judgment on recognition, classification and measurement of the transaction). If so, the IESBA should consider including such as one of the examples in paragraph 290.171 for additional clarity.

Section 291

Question 9

Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

We refer to our comments in response to question 4, which also apply to proposed paragraph 291.146.

Question 10

Are the examples of management responsibilities in paragraph 291.144 appropriate?

We refer to our comments in response to question 3, which also apply to proposed paragraph 291.144.

Question 11

Does the relocation of the guidance pertaining to administrative services provide greater clarity?

We refer to our comments in response to question 6, which also apply to proposed paragraph 291.150.

~ End ~