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4 June 2020

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Senior 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 to the Non-Assurance Services Provisions of the Code
Proposed Revisions to the Fee-Related Provisions of the Code

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 Exposure Drafts (EDs).

We appreciate the IESBA's time and effort in organizing the international webinar on the EDs and explaining the changes.

We believe the concept of auditor independence, both independence of mind and independence in appearance, is crucial for gaining public trust and confidence in the accountancy profession. Overall, we support most of the proposals revision in the EDs which further raise the bar on ethics as compared with the extant IESBA International Code of Ethics for Professional Accountants (Including International Independence Standards) ("Code"), especially those relating to PIE audit clients. The proposals are also helpful in strengthening the application of fundamental principles and conceptual framework.

We have reached out to our small and medium sized practitioners (SMPs) and they have some reservations regarding certain provisions such as the self-review threat prohibition and the withdrawal of the material qualifier.

We acknowledge the outcome of the definition of PIEs project will be critical and have a significant impact on the scope of the proposed provision. We encourage the IESBA to consider the impact of the removal of the materiality qualifier together with the outcome for the project of the definition of PIE and ensure there is no unintended consequences for the self-review threat prohibition.

To help professional accountants understand and implement these proposals, we would appreciate the IESBA to consider developing implementation guidance such as staff publications, case studies, FAQs or providing regular webinars. These would help to explain the intentions of the provisions and promote consistency in implementation.

Our responses to the questions raised in the EDs are set out in the Appendices for your consideration.

If you have any questions regarding the matters raised above, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hki CPA.org.hk).

Yours faithfully,

Chris Joy
Executive Director

CJ/SH

Annex

Annex 1: HKICPA comments on the IESBA's Exposure Draft on Proposed Revisions to the Non-Assurance Services Provision of the Code

Annex 2: HKICPA comments on the IESBA's Exposure Draft on Proposed Revisions to the Fee-related Provision of the Code

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IESBA'S EXPOSURE DRAFT ON
PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISION
OF THE CODE

1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

Overall, we support the intention of the Board to emphasise the concerns of a self-review threat when providing Non-assurance services (NAS). However, local stakeholders have some reservations as it is too stringent to prohibit the provision of different kinds of Non-assurance Service for public interest entity (PIE) audit clients where the self-review threat is considered to be immaterial (quantitatively and qualitatively) or the threat can be managed at an acceptable level by applying appropriate safeguards. We also acknowledge the outcome of the definition of PIEs project will be critical and have a significant impact on the scope of the proposed provision. We encourage the IESBA to consider the impact of the removal of the materiality qualifier together with the outcome for the project of the definition of PIE and ensure there is no unintended consequences for the self-review threat prohibition.

2. Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

The paragraph does provide a clear thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat. However, local stakeholders indicated the wordings may appear to be too stringent. For example, "...evaluate or rely on any judgments made or activities performed by the firm.", auditors would be easily be caught under this provision - an evaluation of the results/activities of non-assurance service (e.g. factual research on industry accounting practice without making any recommendation/conclusion) provided may create a self-review threat. We encourage IESBA to consider providing some examples to illustrate and clarify for application of this proposed paragraph.

Providing Advice and Recommendations

3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

The proposed application materials related providing advice and recommendations in proposed paragraph 600.12 A1 and R604.12 A are sufficiently clear and appropriate; but as firms are required to apply para 600.11 A2, it is critical to revisit 600.11 A2 as discussed in question 2.

Project on Definitions of Listed Entity and PIE

4. Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

We concur that it will helpful to achieve a common definition for PIE for IESBA and IAASB; and we acknowledge that it is not easy to achieve a global single definition. An appropriate definition of PIE should be able to provide a single framework worldwide for national standard setters and minimize the expectation gap among jurisdictions.

Materiality

5. Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B "Materiality")?

Local Smaller-medium size practitioners (SMP) have some reservations for having such blanket withdrawal. Materiality (both qualitative and quantitative factors) should be taken into account whether a NAS should be prohibited. Immaterial NAS, with the application of appropriate safeguards, are less likely to be affected by self-review threat. For SMPs, they would be able to provide a "one-stop solution" to smaller sized PIE audit clients and sustain the growth of the firms.

6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:
- Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?
 - Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?

In principle, we support the proposed provisions. However, local stakeholders consider materiality should be taken in account as discussed in Q.2 & 5.

We envisage the following scenarios could arise from the above prohibition:

- (i) *Further clarity should be given as to timing of the involvement of the audit team in assessing the provision of such NAS service. From the drafting of the provision, it would appear that the audit team and the NAS teams would need to interact and go through the analysis of the issue before proposing to undertake the NAS engagement. Firms may consider the investment of time and resources of undergoing such analysis not cost effective if the conclusion result in a prohibition of such a service. Hence, the implication of such provisions mean that a firm effectively would not provide audit and such NAS to audit clients; or*
- (ii) *The NAS team and the audit team working together such that the appropriateness of that treatment or presentation would not breach these prohibitions. In such circumstances, such NAS could be provided as long as the audit team is in support of that accounting treatment or presentation.*

We would encourage the IESBA to consider the impact of such prohibitions.

Communication with TCWG

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

We support the proposal for improved firm communication with TCWG, including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE since it would promote the transparency for the services and enhance the corporate governance level of the audit client. We also welcome the flexibility provided in the proposed provision.

Other Proposed Revisions to General NAS Provisions

8. Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

We support the structural refinement as it will give more prominence to the context.

9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

We support to elevate the extant application material related to the provision of multiple NAS to the same audit client to a requirement. However, it remains not clear how to implement the requirement in practice and how the NAS interact with each other and the audit engagement. It will be helpful if there are illustrative examples to demonstrate the interaction between the NAS and how to assess the combined effect of providing multiple NAS (e.g. individual service each has insignificant threats to independence, but may have significant threats in combined).

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:
- The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?

Yes, we support the proposed revisions and related illustrative guidance.

- The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?

Local stakeholders indicated their concern that certain accounting services (e.g. technical assistance on account reconciliation problems and technical advice on accounting issues) would be prohibited for PIE audit clients with no materiality quantifier.

It is not uncommon in Hong Kong that local entities which are related entities of a PIE engage a SMP to provide accounting and bookkeeping services and statutory audit services if certain conditions are met. With the withdrawal of the exemption, it appears that the provision of such services to the divisions or related entities of PIE audit clients are prohibited.

- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?

Yes, we support the position taken by IESBA.

- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

Yes, we support the position taken by IESBA.

~ END ~

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IESBA'S EXPOSURE DRAFT ON
PROPOSED REVISIONS TO THE FEE-RELATED PROVISION
OF THE CODE

Evaluating Threats Created by Fees Paid by the Audit Client

1. Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

Yes, we agree with this view. Although this practice is carried out worldwide, we acknowledge this arrangement might create certain level of threat to independence. Compliance with ethical standards and auditing standards can reduce such threat to an appropriate level but cannot fully eliminate the threats.

2. Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:
 - (a) Before the firm accepts an audit or any other engagement for the client; and
 - (b) Before a network firm accepts to provide a service to the client?

Yes. We consider it is appropriate. In addition, a firm should also re-evaluate such threats during the engagement period for continuously, for example when there are additional billing charged to the audit client.

3. Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?

Local stakeholders consider adding an independent committee to firms for governance matters that impact independence appear to be overly demanding and it is not common for other professions that handle clients with significant public interest or not compulsory even for listed entities. With global application of the code, it may not be practical to some less well developed jurisdictions.

In addition, how would this independent committee fit into the proposed Quality Management Standards being developed by the IAASB? If such an independent committee is to be established, we could suggest the IESBA to work with the IAASB and provide guidance on how the alignment would work.

Impact of Services Other than Audit Provided to an Audit Client

4. Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

Yes, we support the proposed requirement. The pricing practice of services other than audit to the audit client may create certain level of independence in appearance issue. We acknowledge it may create fee pressure to SMPs when they provide permissible one-stop services (e.g. audit and tax return submission service) to non-PIE audit clients, and charge a lower aggregated fee than sum of price of services listed individually due to efficiency. The provision should further consider how these kind of arrangements can be addressed.

Proportion of Fees for Services Other than Audit to Audit Fee

5. Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit: (a) Charged by both the firm and network firms to the audit client; and (b) Delivered to related entities of the audit client?

We support the guidance which enables the firm to have a complete picture of the client's significance and threats to independence for the firm and its network firms.

Fee Dependency for non-PIE Audit Clients

6. Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

We support the Board's adoption of a threshold for firms to address threats created by fee dependency on a non-PIE audit client. We fully understand that the proposed threshold is simply an arbitrary threshold. Our local stakeholders, particularly the SMPs, consider the engagements for non-PIE audit clients have minimal public interests impact and the threshold could be further loosened (e.g. 35%). We considered it is also important for the IEBSA to review the appropriateness of the threshold after a certain period of implementation.

7. Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

In principle, we support to have a fresh pair of eyes to review the audit engagement, in order to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold. However, it may be difficult to conduct in practical situation as an external professional accountant has to be engaged and this would lead to increased cost, and the cost will unavoidably be passed on the audit client. This may cause the audit client to consider to change auditor as they may have to bear the cost of review indirectly.

Fee Dependency for PIE Audit Clients

8. Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

We support the Board's adoption of a threshold for firms to address threats created by fee dependency on a PIE audit client and understand the use of professional accountant who is not a member of the firm can address the heightened state of public interest expected from clients that are PIEs. However, local stakeholders indicate their concern that less sizable firms may be discouraged to start accepting PIE audit clients due to the threshold (15% of total fee) is not very high. PIE audit clients are likely to engage more sizable firms so that they not need have to bear the costly pre-issuance reviews indirectly. Ultimately, it will limit the growth of less sizable firms.

9. Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

While we support rotation mechanism of audit partner or firm would act as a safeguard to address independence issue, there is little basis to impose an arbitrary mandatory rotation time period with limited empirical basis. Certain jurisdictions may already impose audit rotation rules, it may create unnecessary burden for firms to keep track observe the requirements for local requirement and global Code. We consider the requirement for a mandatory rotation of firm should be regulated by the local authority. As the Code is for global application, it is more appropriate to for the Code to provide guidance/application materials that how the audit client and auditors should assess and perform in order to maintain Independence of mind and Independence in appearance or recommend the timing to consider rotation of firm, but not a rigid requirement.

We would suggest the IESBA to provide further clarification in circumstances where there are local laws and regulations governing mandatory firm rotation.

10. Do you support the exception provided in paragraph R410.20?

Yes, we support the exception provided.

Transparency of Fee-related Information for PIE Audit Clients

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

Yes, we are supportive of the proposed requirement in paragraph R410.25 regarding public disclosure of fees related information for a PIE audit client. We would encourage the IESBA to work closely with the IAASB on developing example wordings if such disclosure is to be made in the audit report.

12. Do you have views or suggestions as to what the IESBA should consider as: (a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and (b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

No further comment.

Anti-Trust and Anti-Competition Issues

13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

No further comment.

Proposed Consequential and Conforming Amendments

14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

We support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft.

15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

No further comment.

~ END ~