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KICPA’s Comments on IESBA’s Exposure Draft on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

Dear Ken Siong,

We, at the Korean Institute of Certified Public Accountants (KICPA), strongly support the International Ethics Standards Board for Accountants (IESBA) for its commitment to developing high-quality professional ethics standards to raise the bar for ethical conduct expected from professional accountants and to serve the public interest. We are also very pleased to have opportunity to provide our responses to the IESBA Exposure Draft, “Definition of Engagement Team and Group Audits” as below.

Request for Specific Comments

1. Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6)
   (a) The revised definitions of the terms “engagement team,” “audit team,” “review team” and “assurance team;” and
   (b) The explanatory guidance in paragraphs 400.A – 400.D?
(a) We generally agree with the revisions made to ensure alignment with the definition of engagement team in the revised ISA 220.

(b) We fully agree on the need to provide the explanatory guidance that helps determine who, as a member of audit team, should remain independent of audit clients considering evolving audit environments and diversity in how auditors perform work.

However, we propose considering provision of i) the definitions of engagement team and audit team in the glossary of the revised Code, and ii) the explanatory guidance on the glossary in the main body of the Code, which means that audience should refer both to the glossary and explanatory guidance to accurately understand the definitions of engagement team and audit team. In this regard, we believe that eliminating the existing overlaps between the glossary and explanatory guidance (e.g., experts in technical or industry-specific issues, engagement quality reviewers) would help not only define the terms more efficiently but also make it easier for readers to understand.

2. Do you agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?

Engagement quality review is designed to perform an objective review on any material decisions or judgments made by an engagement team for their appropriateness, contributing to enhancing engagement quality. Thus, it is essential for the engagement quality reviewer to remain independent of the audit client. In this regard, we agree to make the engagement quality reviewer a member of audit team, review team, and assurance team even when the reviewer is sourced from outside the firm and its network.

3. Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 6)?

We agree with the proposed new terms as they are either the terms already defined in ISA 600 or the extension of existing terms to cover group audits, such as audit team. However, we suggest that non-authoritative guidance should be provided to illustrate the examples concerning the scope of group audit client, how PIEs are identified by GA (group auditor) and whom CA (component auditor) must be independent of in the context of group audit, among others, to ensure that firms and professional accountants have
accurate understanding of the terms associated with group audit and comply with independence requirements.

4. In relation to the proposals in Section 405 (Chapter 1), do you agree with the principles the IESBA is proposing for:

(a) Independence in relation to individuals involved in a group audit; and

(b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm’s network?

The revised Code clearly defines the independence principles for individuals and firms involved in a group audit. We agree with the way that the level of independence requirement is varied depending on whether a group audit client is a public interest entity (PIE) or not, especially when CA is not a network firm of GA, as this approach enhances public trust while ensuring compliance with proportionate independence requirements.

In addition, as to whether CA should be independent of the group audit client, we agree to apply the conceptual framework with respect to related entities in line with the nature of principles-based approach of the ethics standards.

However, as highlighted by the explanatory memorandum of the Exposure Draft, the revised Code may result in significant cost related to adoption and implementation as it requires changes to practical work process. In particular, the requirement that CA should be independent of the group audit client (conceptual framework with respect to related entities, restriction on financial interest) involves significant change and cost in practical work process. We suggest considering ways to revise the Code in a manner that practical workload can be reasonably reduced.

Under the revied ISA 600, component audit may be required especially even when the materiality of a component is very low to group financial statements, as identification of a significant component is not required any more. In this case, same independence requirements must be applied even when there is no material threat to independence from group audit perspective. One possible option to consider in this context is to apply stronger independence provisions only when a component is material to group financial statements, in the same way that the extant Code’s provisions on related entities only apply to the upstream entity of a listed entity when the listed entity is material to the
upstream entity, or when firms’ financial interest in an audit client’s controlling entity is restricted since the audit client is material to the controlling entity. This approach is expected to help maintain public trust in group audit while alleviating cost burden on firms (especially, small- and medium-sized practices that are mainly responsible for the audit of small components). This approach would also enhance the potential acceptance to revised independence requirements.

5. Concerning non-network CA firms, do you agree with the specific proposals in Section 405 regarding:

(a) Financial interest in the group audit client; and
(b) Loans and guarantees?

The financial interest described above may have impact on the objectivity of CA even when the CA is outside the network of GA firm. Thus, we agree with the need for requirement to restrict specific interest relationships with GA at the least, as described in the above.

6. Is the proposed application material relating to a non-network CA firm’s provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?

We believe that the proposed application material provides appropriate examples and guidance to help understand the independence principles relating to CA’s provision of NAS.

7. Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?

We believe that the proposed application material provides sufficiently clear and appropriate guidance to address the relevant situation as it requires application of the general principles of the Code that are applicable to such situation (paragraphs 400.31 A1 to A3)
8. Do you agree with the proposals in Section 405 to address a breach of independence by a CA firm?

We believe that the proposals are consistent with the general principles of the Code relating to the breach of independence (R400.80). We agree with the proposals as they set forth requirements and application guidance to apply the general principles in the context of group audit.

9. Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6?

We agree with the proposed amendments.

10. Do you support the IESBA’s proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December 2023?

We support the proposal in terms of the need to align the effective date of the final provisions with the effective date of ISA 600.

Request for General Comments

Comments relating to SMP

Stronger requirements for CA independence cause concerns from the perspectives of SMPs. SMPs, most of which have GA-CA relationship with non-network firms, are likely to face greater changes on practical work process and heavier cost burden. They are also at a high risk of breaching the revised Code due to insufficient communication between GA and CA, when stronger independence requirements on group audit take effect with the revised ISA on audit of group financial statements. We hope that these concerns are addressed in the final version of revised Code.

We hope that the IESBA finds our comments useful for its project aimed to further improve the Definition of Engagement Team and Group Audits of the Code. Please contact us at dyou@kicpa.kr for any further question regarding our comments.
Thank you.