



By e-mail < Edcomments@ifac.org >

23 September 2008

Our Ref.: C/EC

Senior Technical Manager,
International Ethics Standards Board for Accountants,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York,
New York 10017,
USA.

Dear Sir,

[IESBA Re-Exposure Draft of Section 290 of the Code of Ethics on Independence – Audit and Review Engagements](#)

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned IESBA Re-Exposure Draft.

Overall, as stated in our submission letter dated 2 May 2007 on the IESBA December 2006 Exposure Draft on Auditor Independence, we are supportive of the current work of the IESBA which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years and that the last substantive revision to the IFAC Code of Ethics for Professional Accountants was made in November 2001.

The attachment set out our comments on each of the two areas under consideration – Internal Audit and Relative Size of Fees for your consideration.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at ong@hkcipa.org.hk.

Yours faithfully,

Steve Ong, FCA, FCPA
Deputy Director, Standard Setting Department

SO/jc
Encl.



ATTACHMENT

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IESBA RE-EXPOSURE DRAFT OF SECTION 290 OF THE CODE OF ETHICS ON INDEPENDENCE - AUDIT AND REVIEW ENGAGEMENTS

Request for Specific Comments

Internal Audit Services

1. Respondents are asked for their views on whether the proposed restriction on providing internal audit services to public interest audit clients is appropriate.

In general, we believe that it is appropriate to prohibit a firm from providing internal audit services that relate to the internal accounting controls, financial systems or financial statements to an audit client that is a public interest entity as stated in paragraph 290.200 of the proposed section 290. We also agree that a firm should not, however, be precluded from providing a non-recurring internal audit service to evaluate a specific matter that relates to the internal accounting controls, financial systems or financial statements provided specified conditions as stated in paragraph 290.198 are met and the facts and circumstances related to the service are discussed with those charged with governance.

While we note that the IESBA has provided guidance on internal audit activities and those assuming management responsibilities, we are of the view that the IESBA should define "internal audit services". By defining "internal audit services", it would provide clarity as to the internal audit services prohibited in paragraph 290.200.

In addition, the IESBA should also clarify what it means by "non-recurring internal audit service" in paragraph 290.201. This would provide guidance on whether internal audit service that relates to the internal accounting controls, financial systems or financial statements to evaluate different specific matters (e.g. different class of transactions) are allowed or prohibited under paragraph 290.201.

2. Respondents are asked for their views as to whether there should an exception for immaterial internal audit services provided to an audit client that is a public interest entity.

In view of the nature of internal audit services, we believe that it is not appropriate to permit "immaterial" internal audit services for public interest audit clients other than a non-recurring service as described in 1 above.

Fees Relative Size

3. Respondents are asked for their views on the appropriateness of the required frequency of the application of the safeguard and the requirement to determine whether a pre-issuance review is required in those instances when the total fees significantly exceed 15%.

We note that the proposals require application of safeguards when, for two consecutive years, the total fees from a public interest audit client exceed 15% of the total fees received by the firm. When the 15% threshold is exceeded, the proposals would require a pre-



issuance or post issuance review by a professional accountant who is not a member of the firm for the second year's and each subsequent years' (if the threshold continues to be exceeded) audit opinions.

The proposals also indicate that when the total fees from a public interest audit client significantly exceed 15%, the firm should determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review should be performed.

As previously indicated in our submission dated 16 October 2007, in principle, we do not support the setting of an absolute threshold. We would prefer that the approach taken by the IESBA considers the distribution of audit fee size rather than setting on one "bright line". For example, the threat posed by a client contributing 15% of audit fees if there is one of 6 similarly sized clients differs from the case where there is one very large client (say 40%) and over 100 small clients.

However, generally, we would agree that there should be safeguards in respect of clients where fees are of major significance to the auditors revenue stream. We would also recommend that further guidance be provided as to what is considered "significant" when fees significantly exceed 15% whereby it is proposed that a pre-issuance review and a post issuance review be carried out.

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