

February 9, 2017

Monitoring Group

Dear Sir or Madam,

The Korean Institute of Certified Public Accountants (KICPA) is pleased to comment on the Consultation Paper (CP) issued by the Monitoring Group (MG), regarding “Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest.” KICPA is a strong advocate of MG for its relentless efforts to serve the public interest and ensure public accountability, being responsible for the overall governance of the standard-setting process and the review of its implementation.

Thank you.

Sincerely,



Joong-Kyung Choi

President, KICPA



## <KICPA Comments>

### General Comment

An audit is an objective examination and evaluation of the financial statements of an organization to provide a certain level of assurance to make sure that the records are a fair and accurate representation of the transactions, provided by an auditor, based on private contracts. We understand the public authorities' strong interests in auditing standards that serve as an auditor's basis for a conclusion or judgment, and especially from the perspective of protecting relevant stakeholders in the capital market and thereby being able to serve and safeguard the public interest. However, the protection should be confined to the highly requested area of the capital market.

We would like to express concerns over the authorities' too much intervention in domains and even those beyond the scope of the capital market. If the regulatory authorities have to directly engage in auditing standard-setting processes to defend the public interest over contractual terms, their engagements should be confined to domains within the context of the capital market, and leave the other domains that convey a nature of "private," that covers private businesses, non-profit organizations and others, to the extant standard-setters, which could be seen as market-driven.

As for the domains within the capital market, a combined single board or separate two boards could establish relevant assurance and auditing standards and pronounce the standards as law. However, it is the public, beneficiaries of audit reports, not accounting firms or others, as we highlighted above, that should bear the costs arising from those standard-setting processes.

SECTION 1: KEY AREAS OF CONCERN IN THE CURRENT STANDARDS-SETTING MODEL

*Question 1: Do you agree with the key areas of concern identified with the current standard setting model? Are there additional concerns that the Monitoring Group should consider?*

**We do not support the MG's decisions to propose a shake-up to the current model that is effectively supporting the public interest. We believe the MG needs to think twice as to whether an outright restructuring of standard-setting scheme, seemingly very drastic, would be a right solution. Instead of rushing towards a radical direction, analyzing a root cause of problems and supplementing the extant scheme would be a right one.**

SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1-3)

*Question 4: Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.*

**We believe it would not be appropriate to set up a single board to be responsible for both auditing and assurance standards and ethical standards. A single board might be helpful for cost reduction, but will end up with less expertise and concentration.**

**In addition, as evidenced by other professional bodies, it is a professional body, not regulators, that sets up its own professional ethics and moral to live up to the public expectation of its duty as responsible, accountable professionals in the society, regardless of where its members belong to from the public practice to academia and businesses.**

**Given that covering ethical standards requires distinctive professionalism, it would not be desirable to integrate both standards just for the sake of practical convenience.**

*Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?*

**Along with ethics, cultivating its aspiring members into professionals who satisfy the public expectation is also up to a professional body. Therefore, we believe IFAC should retain its responsibility for cultivating and educating professional accountants.**

*Question 8: Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?*

**Separating strategic parts and translating them into action would not be possible in the actual process of standard-setting. The consuming process of detailed action and reaching a consensus need to be conducted anyway in a certain stage and at a certain level. Much focus on strategies could invite a circumstance where vague and broad standards are established, giving each jurisdiction a room for diversified interpretation, which exactly runs counter to the current concept of global convergence.**

**Rather, we suggest the MG comes up with strategies that could be reflected into actual action.**

**As for remuneration of standard-setting board members, we see no benefit of it, since no issues or problems have been witnessed under the current model. The remuneration will make the current meaningful contribution and commitment from various sectors only fade away, and make it just as another job. The MG needs to think over whether their propriety goes to serving the public interest or creating another job position of standard-setting.**

*Question 9: Do you agree that the board should adopt standards on the basis of a majority?*

**When developing internationally accepted standards, a priority should be given to reaching a consensus as much as possible. In this regards, adopting standards should be made on the basis of super majority.**

#### SECTION 4: OVERSIGHT – ROLE OF THE PIOB (KEY CONCERN 2)

*Question 15: Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?*

**We believe granting the PIOB a veto might not be necessary. The oversight function is already embedded in the proposed model, making it unnecessary to provide additional function to adjust board's decisions.**

*Question 16: Do you agree with the option to remove IFAC representation from the PIOB?*

**We are with your emphasis on a multi-stakeholder model. We think the multi-stakeholder model should apply not only to a standard-setting stage but to an oversight stage. As a global organization representing the accountancy profession, IFAC should have a seat in the PIOB.**

#### SECTION 6: STANDARD-SETTING BOARD STAFF (KEY CONCERN 1-3)

*Question 21: Do you agree with the option to support the work of the standard setting board with an expanded professional technical staff? Are there specific skills that a new standard setting board should look to acquire?*

*Question 22: Do you agree that permanent staff should be directly employed by the board?*

**We agree with expanding professional technical staff and securing permanent staff directly employed by the board. However, we are not sure whether the board can secure sufficient budgets for the expansion. Considering funding difficulties and uncertainties, a model as equivalent to one in IASB might not be the right direction.**

#### SECTION 8: FUNDING (KEY CONCERN 1)

*Question 25: Do you support the application of a "contractual" levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?*

**We do not support the proposed model that aims to making standards into legislation as a form of regulation or law. In the context of the return to national audit-rule setting, it would not be desirable to make a certain group shoulder the financial burdens. Handing over the financial burdens to the accountancy profession could only create another independence issues.**

**In addition, the main rationale behind MG's suggestions, as we understand, lies to upholding the public interest, which means the public, beneficiaries of the standards, not accounting firms or others, should bear the financial burdens, in a form of contributions to an international organization from each jurisdiction.**

**Especially considering that accounting firms' engagements in the capital market-related domain account for only a small portion of a whole engagement of accounting firms, it does not make sense for accounting firms to be responsible for the whole financial burdens.**

We hope our comments would be useful for MG's project to strengthen the governance and oversight of the International Audit-Related Standard-Setting Boards in the public interest. Please feel free to contact to Anna Yoon for further inquiries via [jyoon@kicpa.kr](mailto:jyoon@kicpa.kr).

Thank you.