

**Listening to the Experts!
Five Years Since the Introduction of ICFR, What Areas Can We Further Prepare for?**

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There are many differences between the accounting audit and internal control management systems in South Korea and the United States. We aim to explore what areas our companies, including Hyundai Motor Company, need to further prepare for in light of these differences.

On a snowy day in November, not long after the first snowfall, we met with Mr. Jae-Yong Aum, a partner at EY-Han Young Accounting Firm. Through our interview with the partner, we had an opportunity to discuss expert-insights and the future direction on the development of the internal control management system.



Hello, Mr. Aum. Could please provide a brief introduction of yourself?

Hello, I am Jae-Yong Aum, a partner at EY-Han Young Accounting Firm. I have been working at EY for about 20 years in both Korea and the US, and I currently serve as the Capital Market Leader, overseeing reporting and disclosures under international standards. Additionally, as the Deputy Head of the Audit Quality Assurance Department, I lead and manage the establishment of standards and practices related to audit quality management and internal control systems. Recently, I have also been responsible for quality management tasks related to ESG and for establishing standards in the Asia-Pacific region, handling a variety of responsibilities.

I understand that you have extensive experience with audits in U.S. corporations. Could you explain the differences between the accounting audit environments in South Korea and the United States?

I feel most strongly that there is a 'cultural difference' in dealing with financial statements. In particular, there are significant differences in responsibility for financial statements and the role of supervisory authorities.

In the case of Korea, there was a lot of ambiguity as responsibility for financial statements between companies and accounting firms was not clear. The Financial Supervisory Service oversees both the company's responsibility for financial statements and the responsibility for accounting audits performed by accounting firms, so there is some overlap in roles. On the other hand, the United States makes a clear distinction.

The U.S. SEC (Securities and Exchange Commission) supervises companies' obligations regarding the preparation and disclosure of financial statements, while the PCAOB (Public Company Accounting Oversight Board) oversees the audit activities and quality of accounting firms. Separation of the organization clarifies responsibilities between roles and allows for more professional supervision. Of course, I believe that Korea's Financial Supervisory Service has an internal organization that allows it to carry out the two tasks separately, and that related laws are being revised to gradually become more specialized.

There are also differences in disclosure culture. In Korea, there is a large volume of information that must be disclosed, and sometimes this includes information that is not directly related to the financial statements. In contrast, in the United States, there is a tendency to exclude information that is not directly relevant to the company from disclosures at a reasonable level. It feels like the accounting audit culture in the U.S. is somewhat more 'flexible' compared to Korea, where there is a tendency to be more conservative and seek safety.

Currently, it has been about five years since the introduction of ICFR audits in Korea, and it is becoming somewhat established. In contrast, the United States has had a much longer history with this system. Could you please share your thoughts on the overall state of ICFR in Korea compared to that of the U.S.?

The ICFR systems of Korea and the United States are like comparing 'a child to an adult.' The U.S. internal accounting system has evolved over a long period and is a very mature and stable system. It can be likened to an adult over 20 years old who has grown strong through various experiences.

On the other hand, Korea has only introduced its ICFR system 5 years ago, so it can be said that it is still in the growth stage. Just like a 5-year-old child learning about the world, our country's internal accounting system is not yet perfect and is at a stage where it needs to continue to develop.

Certainly, in just 5 years, Korean companies have realized the establishment of the system at a remarkably fast pace. Simply adopting the sophisticated U.S. model, which has been refined over 15 years of experience, could lead to significant side effects. However, seeing how well the initial challenges of implementation have been overcome and how quickly the system has taken root, we can be optimistic about the future of ICFR systems in Korea. As I mentioned earlier, the accounting audit culture in Korea tends to be conservative and safety-oriented yet witnessing the swift establishment of this system in such an environment makes me truly admire Korea.

On one hand, some argue that ICFR is still immature, leading to constant cases of embezzlement. On the other hand, many believe that because ICFR has been well established, these incidents are coming to light and can be detected more effectively. If ICFR in Korea develops further, it will reduce undesirable errors and unforeseen incidents, and it will acquire the "maturity" to quickly detect and respond to issues when they occur. This is precisely the future of ICFR in Korea that I hope for.



EY-Han Young is currently carrying out accounting audit work for Hyundai Motor Company. From an auditor's perspective, what do you think about the level of operation of Hyundai Motor Company's ICFR system?

As a global company representing Korea, I believe that Hyundai Motor Company also takes the lead in responsibility for the Korean ICFR. And we are carrying out that responsibility exemplarily to this day.

At EY, I performed a lot of ICFR-related work for Hyundai Motor Company from the beginning of the introduction of the system to my current position as auditor. Compared to its initial appearance, Hyundai Motor Company's current ICFR operation has gradually become more sophisticated, and its level can be said to be the best in Korea.

In particular, I feel that the speed of reviewing and resolving unusual issues that may arise during ICFR operations has become very fast and sophisticated. I believe this is possible because the internal accounting department and management have continuously accumulated experience. Although the system itself still has room for development, I believe that Hyundai Motor Company's efforts and will are making a significant contribution to taking it to the next level and leading the system to maturity.

Are there any systems or practices related to internal accounting that companies like Hyundai Motor Company should consider implementing or enhancing?

If the system can be enhanced using AI, it would allow for both accident prevention and improved operational efficiency. EY has recently conducted AI system implementation services for a large publicly listed company in the U.S. When an invoice, which serves as proof of the transaction, enters the system, a reconciliation system first operates to automatically scan it, extract the necessary information, and compare it with the actual sales ledger data. Based on this, if there is any discrepancy between the invoices and the sales ledger, the system identifies patterns and generates a report. This report is then sent to the relevant departments, allowing them to identify where issues may arise. In terms of sales transactions, thousands to tens of thousands can occur in a year, making it very difficult for individuals to pinpoint errors. Since AI systems can efficiently and accurately address these problems, implementing them in various areas would greatly aid ICFR operations by consistently focusing on error elimination. There are already some sectors in the domestic industry where AI has been introduced, and its application is gradually expanding. Hyundai Motor Company is likely using AI in certain areas, and I believe it would be beneficial to actively consider adopting it for ICFR purposes as well.



You mentioned that you are engaged in ESG-related work. If you have any opinions on how ESG might impact internal accounting in the future, please share them.

Currently, the global landscape of ESG can be largely categorized into three geographic regions: Europe, the United States, and Asia. While Europe can be seen as having the fastest institutional establishment of ESG practices, the U.S. tends to be relatively slower. Asia, where South Korea is located, is in a position of monitoring which direction the standards of each country will move. However, the fundamental principle remains that companies should not only focus on economic activities but also pay attention to their surrounding environment, society, and its members, seeking sustainable management and co-prosperity.

In this context, what is ultimately important is quantifying how much impact our company's products or services have on the environment. For example, when purchasing a Hyundai car, it should be possible to directly show, on a per-unit basis, how much 'carbon reduction effect' is included in the price. To achieve this, a process must be established to meticulously track that effect from the design and production stages of the vehicle, along with clear data.

In other words, ESG-related non-financial information controls, similar in nature to the current internal controls that focus on managing financial information, will also be designed and operated. I believe that there will be ongoing considerations regarding how to disclose these aspects in the future.

Finally, if you have any advice or insights that could be useful for professionals and experts in advancing the ICFR system in South Korea, please share them.

In South Korea, there is a strong perception that the ICFR is more focused on penalties rather than on fostering compliance. Because of the penalty-oriented nature of the system, companies often act quickly to avoid punishment, rather than understanding the importance of the system and naturally integrating it into their management practices. It is essential for employees to recognize the significance of ICFR and to cultivate a sense of responsibility and ownership.

Moreover, it's necessary to go beyond merely adhering to regulations. Senior team members should pass their knowledge and insights about ICFR to junior members, fostering a culture of collective growth. To achieve this, the commitment of the management ("Tone at the Top") is vital. Understanding that ICFR is not merely about avoiding penalties, but is essential for the survival and growth of the company, and further disseminating this knowledge within the organization while considering its future impact on sustainability, will lead to more active and engaged participation from members. These efforts will come together to create a company with a healthy organizational culture.

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