

### I. Communication with TCWG

#### **Regulators and Oversight Authorities, Including MG members**

##### **6. International Forum of Independent Audit Regulators (IFIAR)**

We support the direction of the exposure draft in addressing the fee-related issues in the independence for audit and review engagements. Especially, enhancement of transparency of information regarding fees for audit clients that are PIEs makes the communication between auditor and Those Charged with Governance (TCWG) more active and effective. We believe that this contributes to the improvement of audit quality.

We note that no specific reference to timing of the initial involvement of TCWG is made (“timely manner”). We propose to require communication of fee-related information to TCWG before any request for approval by TCWG of the appointment of the auditor to perform the audit engagement. This should also cover how the firm addresses threats to independence.

We suggest aligning communication requirements to TCWG of audit fees and fees for services other than audit for PIEs and Non-PIEs. Should there be TCWG identified for a Non-PIE, we believe they should be informed and assess threats independence like for PIEs. However, requirements or guidance in this regard should be developed in close coordination with the IAASB.

##### **7. International Organization of Securities Commissions (IOSCO)**

Communication by the firm of fee-related information (for both audit and non-audit services) with TCWG assists them in their assessment of the firm's objectivity.

We believe that TCWG, should be informed of the fees and independence assessments whether or not the audit client is a PIE.

To reduce threats to independence a greater interaction between the firm or network firm and audit committees or those charged with governance (TCWG) could be envisaged as illustrated in IOSCO 's Report on Good Practices for Audit Committees in Supporting Audit Quality.

In Paragraph R410.23 it is stated that "for audit clients that are PIEs, the firm shall communicate in a timely manner with TCWG the fees charged during the period by the firm or network firm of services other than audit to the client which shall include only related entities over which the client has direct or indirect control to assess the impact of the fees on the firm's objectivity". In such cases and where local regulations permit we believe certain responses could be added to the application material such as seeking and gaining pre- approval of the services prior to the commencement of the engagement.

In addition, Paragraph R410.23 (a) speaks only of related entities over which the client has direct or indirect control. We believe the scope here is too narrow , as not only downstream entities should be focused on, but any related entity to which the client has a relationship (such as parent entities), since those, such as relationship partners, serving parent entities could exert undue pressure on the audit firm or network undertaking the audit.

#### **Public Sector Organizations**

##### **11. Office of the Auditor General of New Zealand (AGNZ)**

However, we are of the view that paragraph R410.22 (a) needs to clarify its reference to the “level of the fee”. It is unclear to us whether that refers to the “cost of the audit to the firm” or to “the fees that have been charged to the entity for the audit”? If it is the former that is important information that allows the auditor to have a meaningful discussion with TCWG about the true cost of the audit, in relation to the fee that has been charged.

#### **Professional Accountancy Organizations (PAO's)**

##### **35. The Institute of Chartered Accountants of Scotland (ICAS)**

We note some matters that could be clarified in relation to the “Communication About Fee-related information with Those Charged with Governance” paragraphs:

Paragraph R410.22 states that “the firm shall communicate in a timely manner with those charged with governance”. We would suggest that it might be helpful if the Code could indicate that communication with TCWG regarding fee-related information should, at least, take place at the conclusion of the engagement. For example, we note that the FRC’s Ethical Standard paragraph 1.59 specifically states: “The most appropriate time for these final written confirmations of independence is usually at the conclusion of the engagement.” Communication with TCWG regarding fees may, of course, require to be more often if, for example, non-assurance services are being provided.

In paragraphs 410.22, it would be helpful to provide more clarity regarding whether it is fees for the firm and its network firms charged to the audited entity and its related entities. For example, FRC Ethical Standard paragraph 1.61 states: “For an audit engagement, the engagement partner ensures that the total amount of fees that the firm and its network firms have charged to the audited entity and its affiliates for the provision of services during the reporting period, analysed into appropriate categories are disclosed.”

## **Firms**

### **51. BDO International Limited (BDO)**

In R410.22 and R410.23, communication is required ‘in a timely manner’. We believe this term could be interpreted in different ways by different users of the Code. We would recommend defining the term or providing examples of what would represent a timely manner.

### **53. Deloitte Touch Tohmatsu Limited (DTTL)**

We agree that the objective of communicating fee-related information to those charged with governance (“TCWG”) is to enable TCWG to consider the independence of the firm. We therefore support efforts by the Board to strengthen guidance on such communications, provided the proposals are clear in their application, do not create anti-trust or anti-competition issues, and provide useful and timely information to TCWG in furtherance of that objective.

With respect to the section on Audit Fees, in our view there is a lack of clarity in the nature and timing of the information to be communicated to TCWG in various places, for example:

- R410.22 refers to in “a timely manner” and 410.22 A2 refers to “as soon as practicable” when it would seem certain communications should occur prior to the acceptance of the audit engagement.
- Overall there is a lack a clarity of when each communication is required to take place and whether they are done at separate times (which seems to significantly increase the burden on audit firms and TCWG) or can be made, for example, annually by agreement.
- It is unclear whether the communications under R410.22 take place with respect to each audit engagement within the PIE group (e.g., at each component level) which would create a lot of duplication and should not be required.
- It is not stated whether the audit fees being reported in R410.22 are solely for the firm or also network firms.
- It is not clear why the disclosure of the fees for the audit of special purpose financial statements and review engagements as required in R410.22(b) is relevant for TCWG to assess a firm’s independence in connection with the audit.
- The factors in 410.22 A1 do not appear to be matters that would reasonably bear on independence, and it is unclear whether such discussions held at the time the audit fee was negotiated would be considered to discharge this communication requirement (though R410.22 (a) refers to fees ... on which the firm “issued” an opinion which suggest after the engagement period).
- It is not stated whether the communications are required to be in writing.

With respect to the section on Fees for Services Other than Audit, we understand that the intent of R410.23 and 410.23 A1 is for the auditor to provide information that provides an overall view to TCWG about the fees. With respect to an audit client that is a PIE, we consider that a discussion with TCWG about the nature of the services and their associated fees would logically and practically occur at the same time the Board proposes

that the audit firm be required to obtain concurrence for TCWG prior to providing a non-audit service [proposed R600.19 in the NAS ED].

We suggest that the Board consider more closely the interaction of these requirements on non-assurance services in order to provide clarity and consistency in communications to TCWG as well as their timing. For example, we suggest that the requirement in R410.23 be consistent in scope with the requirement for gaining the concurrence of TCWG for the provision of non-audit services in the NAS ED – i.e. to have the same scope for obtaining concurrence of non-audit services and communicating the fees paid or payable for such non-audit services.

However, as also noted in our response to the NAS ED, we do not agree that such scope should extend to entities over which the audit client has “direct or indirect control” and this is not consistent with other regulations (namely those of the SEC and the EU Audit Legislation). For instance, the SEC requires audit committee preapproval for services provided to an issuer audit client and its subsidiaries. Similarly, while the EU requirements refer to the audit client and its controlled undertakings, the concept of controlled undertakings follows the accounting directives and means the consolidated entities. Using the proposed language would greatly expand the scope of entities that would be subject to preapproval, especially in the private equity space. Reporting requirements should extend only to entities over which TCWG will have decision-making or corporate governance responsibilities, that is, consolidated entities.

Consistent with our comments above in respect of R410.25, we suggest R410.23 should refer to “fees billed for services other than the audit provided during the period covered by the financial statements,” rather than “fees charged during the period covered by the financial statements” for the provision of services.

## II. Overdue Fees

### **Regulators and Oversight Authorities, Including MG members**

#### **3. Capital Market Authority – Saudi Arabia (CMSA)**

With regard to overdue fees, I would suggest prohibiting engaging with PIE clients where over-due fees exist.

#### **6. International Forum of Independent Audit Regulators (IFIAR)**

The exposure draft includes factors that are relevant for the auditor in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client. One of those factors relates to the “significance” of the audit client to the audit firm. However, no indication about how to assess the qualitative and quantitative significance of the client is provided in the Code. We believe more specific descriptions are needed to reach a consistent application of this concept and to prevent abuse. The same difficulty has been identified in relation to what is considered to be “significant” or “a long time” when assessing the self-interest threat in cases where fees are overdue.

### **Firms**

#### **51. BDO International Limited (BDO)**

In R410.12, there is reference to fees being unpaid ‘for a long time’. We believe this term could be interpreted in different ways by different users of the Code. We would recommend defining the term or providing examples of what would represent a long time.

#### **53. Deloitte Touch Tohmatsu Limited (DTTL)**

In addition to the question asked regarding overdue fees from an assurance client, we also note the changes made in 410.11 A1 and A2.

It is not clear what is giving rise to the proposed changes to 410.11 A2 and the Board has not provided an adequate rationale for this change. We do not expect a firm to always have obtained payment of overdue fees before issuing the current year’s audit report, and do not support the changes to 410.11 A2. The extant wording in the Code that references the following year is more intuitive especially when considering the

requirements in R410.12 which involves the determination of whether it is appropriate to be re-appointed or continue the audit engagement which are more forward-looking actions.

We support a principles-based assessment of overdue fees, for example, considering the materiality of the fees to the firm, the period of time for which they remain outstanding since they were invoiced, etc., which is not necessarily relevant to the date the report is issued. We also note that it would be difficult for a firm to assess an audit client's "willingness" to pay overdue fees and suggest this be changed to "commitment" to pay.

#### **44. Malaysian Institute of Accountants (MIA)**

Overdue fees, if not fully collected, should be substantially collected to an amount that reduces self-interest threats sufficiently. We believe that further clarity is needed for paragraphs 905.8 A3 and R905.9 on the interpretation of obtaining partial payment of overdue fees and whether the overdue fees might be equivalent to a loan.

### **III. Contingent Fees**

#### **Regulators and Oversight Authorities, Including MG members**

##### **10. United Kingdom Financial Reporting Council (UKFRC)**

Paragraph R410.9 in effect permits a contingent fee to be charged for a non-assurance service provided to an audit client if the fee is not material to the firm or network firm providing the service, or if the outcome of the service is not dependent on a future or contemporary judgment related to a material amount in the financial statements. In our view there should be an outright prohibition on a firm and any of its network firms providing any non-assurance service to an assurance client, wholly or partly, on a contingent fee basis. Providing non-assurance services on a contingent fee basis, can give rise to a perception that the firm's interests are so closely aligned with the entity that the integrity, objectivity and independence of the firm could be, or seen to be, compromised.

##### **6. International Forum of Independent Audit Regulators (IFIAR)**

In the current draft, certain contingent fees are prohibited for Non-Audit Services (NAS) if they meet the criteria set out in R410.9 (a). We disagree with this approach, as even immaterial contingent fees to the firm for NAS could impair independence as it results in an alignment of interests. In addition, as further explained above, the use of the term "significant" in paragraph R410.9 (b) is unclear. We strongly recommend that contingent fees for NAS should not be permissible in any instance.

We further recommend that the description of contingent fee be revised to include the following situations, which we believe are also threatening situations to auditor independence relative to contingent fees:

Any fee (1) established for the sale of a product or the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or (2) in which the amount of the fee is otherwise dependent upon the finding or result of such product or service.

We also suggest that it be made clear that any service or product a firm or network firm provides for a commission directly or indirectly should be prohibited.

##### **7. International Organization of Securities Commissions (IOSCO)**

We observe that Paragraph R410.9 does allow contingent fees for non-assurance services (NAS) to be charged to audit clients unless specific conditions are met. We believe that even immaterial contingent fees for NAS could impair the appearance of independence of the auditor. We recommend that for PIE audit clients (including when there is a PIE in the company structure) contingent fee arrangements for NAS should be prohibited.

##### **5. Independent Regulatory Board for Auditors (IRBA)**

We encourage the IESBA to strengthen R410.9 relating to contingent fees by enforcing a prohibition of contingent fees on non-assurance services to an audit client. R410.9 (a) – (c) are unnecessarily confusing, with the inclusion of “materiality” provisions.

## IV. Level of Fees

### **Regulators and Oversight Authorities, Including MG members**

#### **6. International Forum of Independent Audit Regulators (IFIAR)**

Factors relevant in assessing the threats due to the audit client payer model have been listed in 410.4 A2. The second bullet makes reference to the firm’s commercial and market priorities and position. However, we encourage further elaboration on the additional factor in 410.5 A2 that says “The firm’s commercial rationale for the audit fee” in order to distinguish clearly from the factor in 410.4 A2.

#### **7. International Organization of Securities Commissions (IOSCO)**

Paragraph 410.5 A2, second bullet should read "Whether undue pressure has been or is being applied by the client to reduce the audit fee."

### **Professional Accountancy Organizations (PAO’s)**

#### **31. Institute of Chartered Accountants of Bangladesh (ICAB)**

We believe that the quality of audit cannot be compromised due to level of audit fee. However, it is fact that the quality has cost means to ensure audit quality, better resources need to be deployed and audit must be conducted in compliance with auditing standards which incur reasonable cost to the firms. We believe that unduly low level of audit fees could create threats to compliance with the fundamental principles and adversely impact audit quality.

In Bangladesh case, ICAB prescribes sector-wise minimum fees’ schedule considering the local context in all aspects and receives the fees information from the audit firms through annual returns of the firms through which the Institute can monitor the level of fees charged by the firms and in case of very low fee charged by any firm against any audit client, then the quality of audit falls under subject to review. We believe, this process motivates the firms to maintain and enhance the audit quality and to reduce the undue competition in charging of lower audit fee.

We think, in most of the developing countries, fixation of audit fee is big challenge. In addition to self-accountability, auditors are under pressure from different stakeholders including regulators on compliance of different regulations and standards maintaining of high level audit quality. To meet this expectation, in most of the cases audit firms require to increase its expenditure to maintain the quality of audit in compliance the regulations and standards. This is now a burning issue for many audit firms. We think that a comprehensive mechanism to address the level and fixation of audit fees should be addressed and suggested in the revision of the Code.

#### **48. South African Institute of Chartered Accountants (SAICA)**

We suggest that the term ‘appropriate reviewer’ in 410.5 A3 be elaborated on, as to whether this includes both internal and external reviewers. “Reviewer” is a term used for a person conducting independent reviews as defined in International Standards for Review Engagements (ISRE) 2400, Engagements to Review Historical Financial Statements, and we are concerned with the fact that there might be confusion with the use of this term in the two different contexts.

## V. Fee-dependency relevant to all audit clients

### **Regulators and Oversight Authorities, Including MG members**

#### **4. Irish Auditing & Accounting Supervisory Authority (IAASA)**

In addition to the possible safeguards listed in paragraph 410.13.A7 to address fee dependency, the firm could re-allocate the engagement to another partner, office or part of the firm.

#### **6. International Forum of Independent Audit Regulators (IFIAR)**

In calculating total fees, clarification might be helpful as to what financial information the proposed guidance is referring to (410.13 A2), i.e. records from the bookkeeping system, fees disclosed in the financial statements/reported to TCWG or numbers submitted to the regulator.

410.13 A4 proposes, "Having an appropriate reviewer who is not a member of the firm review the work" as a safeguard example. We understand from the explanatory memorandum (footnote 16 to paragraph 52) that the review to address self-interest and intimidation threats could be performed by a member of a network firm. This should be clearly articulated in the Code.

#### **Professional Accountancy Organizations (PAO's)**

##### **29. Instituto dos Auditores Independentes do Brasil (Ibracon)**

More examples of actions that might be safeguards in paragraph 410.13 A7 would be appreciated

#### **Firms**

##### **56. KPMG IFRG Limited (KPMG)**

410.13 A5 - We suggest that the wording of this paragraph be revised to conform to the wording of 410.13 A1, which notes an impact to the evaluation of the level of the self-interest threat instead of the creation of a self-interest threat, which has already been established.

## **VI. Definitions**

### **Regulators and Oversight Authorities, Including MG members**

#### **2. Committee of European Auditing Oversight Bodies (CEAOB)**

We note that the fees-project is linked to two other projects, i.e. the Proposed Revisions to the Non-Assurance Services Provisions of the Code and the Definitions of Listed Entity and Public Interest Entities (PIE). Regarding the definitions of Listed Entity and PIE, CEAOB members are bound by the definition of PIEs in the EU Regulation. We draw the Board's attention to the fact that, for us, it is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context in order to facilitate application of the IESBA Code in EU/EEA Member States.

#### **4. Irish Auditing & Accounting Supervisory Authority (IAASA)**

We note that the fees-project is linked to two other projects, i.e. the Proposed Revisions to the Non-Assurance Services ('NAS') Provisions of the Code and the Definitions of Listed Entity and Public Interest Entities ('PIEs'). Regarding the definitions of listed entity and PIEs, IAASA is bound by the definition of PIEs in EU Regulation Number 537 of 2014 ('the EU Regulation'). We draw the Board's attention to the fact that, for us, it is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context in order to facilitate application of the IESBA Code in Ireland and other EU/EEA Member States.

#### **5. Independent Regulatory Board for Auditors (IRBA)**

The concepts of "significance" (e.g. R410.9 (b), R410.12 and 410.13 A3), "appropriate reviewer" (e.g. 410.5 A3, 410.9 A3), "external review" (410.4 A2) and the significant complexity and judgement involved in the calculations could impair the effectiveness of the provisions.

#### **6. International Forum of Independent Audit Regulators (IFIAR)**

The concept of "significance" (e.g. R410.9 (b), R410.12 and 410.13 A3), "appropriate reviewer" (e.g. 410.5 A3, 410.9 A3) or "external review" (410.4 A2) could impair the effectiveness of the provisions. We propose

that IESBA provide descriptions, explanations and/or give examples to help users apply the provisions in the Code. Without further explanation of these terms, consistent application of the Code will be difficult to achieve.

### **7. International Organization of Securities Commissions (IOSCO)**

Lastly we note that throughout the Paper (as illustrated in Paragraph R410.4, sentence 1 vs. sentence 2) the terminology addressing the auditor sometimes refers to "the (audit) firm or network firm" and sometimes to "the firm" only. In our view, the language should be consistent to always refer to "the firm or network firm" unless the Board believes a specific provision impacts only the firm and therefore limits the provision to just the individual firm and not to the network.

### **10. United Kingdom Financial Reporting Council (UKFRC)**

In our responses to the Structure EDs, we explained that it is inappropriate for the term "audit" to be taken to include "review". IESBA chose to ignore our position and just noted that "adopting organisations, if they so wished, could choose to distinguish "audit" and "review" separately in their versions of the Code". However, we now see that IESBA is recognising that there can be circumstances where a distinction needs to be made between audit and review, including in this ED where particular proposals are intended to make specific reference to the fee for the audit of the financial statements only (i.e. not including a review of the financial statements or an audit of special purpose financial statements). IESBA's proposed solution is to use the expression "fee for the audit of the financial statements" when "audit" really is only audit and not also "review". We do not believe that this introduces sufficient clarity given that elsewhere in the Code it says "audit" is to be taken to include "review" - with that in mind, IESBA's proposed wording could easily be interpreted by some practitioners, who do not read paragraph 410.3.A3 each time they go to another part of the Code, as "fee for the audit/review of the financial statements".

We struggle to understand IESBA's position as this is not an overly complicated matter to address. In the course of our revision of the FRC Ethical Standard we addressed a similar issue by referring generically to 'engagements' whilst being precise about the specific application to different types of engagement (whether audit or not) where they differed. Our standard is designed to apply to all engagements for which we issue performance standards (and so is broader in scope than audit and review engagements).

### **Professional Accountancy Organizations (PAO's)**

#### **48. South African Institute of Chartered Accountants (SAICA)**

As a general comment we wish to raise the issue of clarity in the terminology. The Exposure Draft uses the term "audit fee", which refers to the fees for audits and reviews, and "fee for audit", to fees only for audit engagements, and not including independent reviews. Paragraph 410.5A1 also refers to "whether for audit or other services". There is confusion as to what engagements "other services" refers to – if this includes independent review, other assurance services, or other non-assurance services.