ED Questions 3

A) Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client?

The respondents’ responses for Q 3A are divided into 2 groups:

1. Suggestions or views regarding factors
2. No comments or suggestions

1. Suggestions or views regarding factors

Regulators and Oversight Authorities, Including MG members

3. Capital Market Authority – Saudi Arabia (CMASA)

With regard to question 3 under the “Request for Specific Comments” about suggestions for further factors relevant to evaluating the level of threats associated with fees, I was wondering if by using current-time AI and statistics tools, an estimate of what a reasonable fee for audit engagements can be developed. Possibly, such fee can be linked to the size of revenue, total assets, or any other indicator.

5. Independent Regulatory Board for Auditors (IRBA)

Yes, with conditions. We support the inclusion of these provisions. We appreciate that seven factors have been included in the revisions. This will ensure that the requirement is consistently applied. Clarification is required with regard to the following bullets: “Whether there is external review of the quality of the firm’s audit work.” While it is clear in the explanatory material, we suggest that the wording in the IESBA Code should clarify that this review may be performed by an individual from either within or outside the network. We question, however, whether this is a sufficiently appropriate safeguard, as the threat faced by the firm and the individuals within the network firm may be a similar self-interest threat. “The level of fees and the extent to which they have regard to the resources required, considering the firm’s commercial and market priorities and position.” The phrase “firm’s commercial and market priorities and position” has not previously been used in the IESBA Code. We question whether this will be understandable. “The significance of the client, for example, to the firm, network, partner or office.” Clarification is sought on whether this consideration is in relation to the fee (financial significance). “The nature of the client, for example, whether the client is a public interest entity.” It is unusual to list a public interest entity consideration as a factor. Is this not already covered in 300.7 A3 of the IESBA Code?

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.

10. United Kingdom Financial Reporting Council (UKFRC)

See the second part of our answer to 02. It is important to ensure the ability to perform an engagement is not compromised by fees that are too low. If this is intended to be covered by the second bullet of the list in paragraph 410.4.A2, that is not sufficiently clear. Also, it would be more appropriately covered by a requirement.
Furthermore, in relation to the list in paragraph 410.4.A2, it would be more helpful if it was reworked and more clearly presented as examples of factors than may increase the level of threats. For example, the words "taking into account the firm's commercial and market priorities and position" at the end of the second bullet point could be interpreted as a factor that may be used to justify a particular level of fees - the key message should be that the firm doesn't allow its commercial and market priorities and position to cause it to take on engagements and/or set fees that would give rise an unacceptable threat to independence.

Similarly, it is not clear what message is intended to be conveyed by the words "and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees" at the end of the third bullet. The key message should be that the firm does not succumb to pressure to reduce the quality of its work in order to reduce the fees. It should also be made clear that it is not acceptable to set a "loss leader" audit fee for commercial reasons to win business as this could give rise to actual or perceived threats to audit quality.

Public Sector Organizations


We agree that the factors listed in paragraphs 410.4 A2 and 410.4 A3 are relevant to evaluating the level of threats created when fees are paid by the audit client. However, we note that the list includes

- conditions that are prohibited (dependency of the level of the fee on the outcome of the service and linkage between fees for the audit and those for other services),
- conditions that require further evaluation (relative size of fees for the audit compared to the fees for other services),
- conditions that may reduce the level of the threat (involvement of those charged with governance), and
- conditions that may be safeguards (an external review of the quality of the firm’s audit work).

We encourage the IESBA to consider whether grouping these conditions in one list may be confusing for users of the Code.

(…)

We suggest that the IESBA consider whether users of the Code would understand the IESBA’s position that compliance with professional standards assists in mitigating threats. Proposed paragraph 410.4 A3 notes that a quality management system might affect the evaluation of the threat. However, it does not make clear that a robust system of quality control may be a safeguard to reduce the self-interest threat and intimidation threats.

Professional Accountancy Organizations (PAO’s)

17. Joint Submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (ACCA-CAANZ)

We believe the Board has sufficiently considered the factors relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audited entity and we have no further suggestions.

18. Accountancy Europe (AE)

No, we do not believe that the IESBA should consider any other factors than the ones mentioned in our response to Question 1. The implications of and potential threats created by the audit client payer model are well known and accepted by stakeholders.

21. Botswana Institute of Chartered Accountants (BICA)

The Board should consider effectiveness of any measures proposed to the firms to mitigate risks associated with threats arising from fees.

24. CPA Australia (CPAA)
CPA Australia supports the IESBA considering the framework by which the professional accountant determines the audit fee. Any additional guidance in the Code should remain principles based and focus on matters the professional accountant might consider to arrive at the proposed fee.

The fundamental principles in the Code are designed to assist the professional accountant in applying sound judgement to all decisions regarding client engagement. Some jurisdictions provide further guidance with respect to client engagement which address issues of ethics and professional standards relating to fees. In Australia, for example, the Accounting Professional and Ethical Standard Board (APESB), provide requirements and guidance to members on terms of engagement which include fee provisions in paragraph 4.8 of APES 305 Terms of Engagement.

25. Chartered Professional Accountants Canada Public Trust Committee (CPAC)

Through our consultation, we did receive feedback that some of the factors listed in 410.4 A2 as relevant to evaluating the level of threats created are actions that might be better identified as safeguards in addressing such threats. For example, an external review of the quality of the firm’s audit work was noted as being a potential safeguard.

30. Inter-American Accounting Association (IAA)

Yes, we believe that an extremely important aspect to take into account as another of the relevant factors when evaluating the threat is the professional opinion of a lawyer, more than ever it is important to measure its level using the legal criteria of a trustworthy professional lawyer. Legal advice on this matter, we understand, is essential.

31. Institute of Chartered Accountants of Bangladesh (ICAB)

We think the proposed code covers the key factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client.

However, we think that “the adequacy of time given for accomplishment of audit assignment maintaining appropriate audit procedures” may also be added as one of those factors.

32. Institute of Chartered Accountants in England and Wales (ICAEW)

We are not sure that the Code needs every single factor that might be relevant in a particular situation to be set out as if forming a checklist. That might be appropriate for a help sheet but in the Code, examples of types of factor are sufficient. Relevant factors will relate either to the level of fee dependency (relative size and profitability for the audit firm; method of remunerating the audit partner, etc) and the level of involvement by others independent of executive management in the fee setting process (structure of the audited entity’s governance, who agrees the audit fees, etc).

33. Institute of Chartered Accountants Ghana (ICAG)

The factors listed at paragraph 410.4 A2 are quite comprehensive. Apart from including the internal quality control mechanisms that exist within an audit firm, we do not have further factors to suggest as relevant to evaluating the level of threats created when fees are paid by the audit client.

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

We note the proposed paragraph 410.4 A2 on factors relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client. Although these factors are helpful, we believe that a holistic approach or framework is needed.

In our view, compliance with the proposed ISQM 1 and professional standards should be sufficient. There should also be greater acknowledgement of International Standard of Auditing 220 Quality Control for an Audit of Financial Statements ("ISA 220"), whereby the engagement partner is required to ensure that the audit engagement team complies with relevant ethical requirements, including independence requirements that apply to an audit engagement.

The holistic approach or framework should require the consideration of the various aspects already embedded within ISQM 1, ISA 220 and professional standards for the purpose of evaluating whether the inherent self-interest threat is at an acceptable level.
Notwithstanding the above, an audit firm’s independence may be affected by its client’s threats to subject a potential audit engagement to a ‘Request for Proposal (RFP)’. The RFP could be under the ambit of the client’s corporate governance polices or best practices and leaves the audit firm with little or no room to negotiate.

36. Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU agrees that the factors listed in paragraphs 410.4 A2 and 410.4 A3 are relevant to evaluating the level of threats created when fees are paid by the audit client, more so given that the said paragraph 410.4 A2 has been couched in a more inclusive format thereby paving way for more illustrations that may be peculiar to a particular jurisdiction.

37. Institut der Wirtschaftsprüfer (Germany) (IDW)

Subject to our comments above concerning the need to require in all engagements a formal determination that the level of threat is acceptable, we agree that when a formal determination of the level of threats is triggered by specific factors that – when present – would increase the level of threat, mitigating factors such as those in proposed 410.4 A2. may be relevant.

In this context, whilst we agree that the existence of a quality management system in line with [proposed] ISQM 1 impacts the level of threat (proposed 410.4 A3), we question whether this is a separate factor in a firm’s formal determination.

38. Mexican Institute of Public Accountants (IMCP)

No, we consider that each firm or professional accountant should have a process to evaluate these specific threats, following the guidelines already in the code.

44. Malaysian Institute of Accountants (MIA)

We would also propose that the IESBA clarify the term “significance of the client” in paragraph 410.4 A2, since this could be measured in several ways (e.g. level of fees, market position of the client, market capitalisation of the client, etc.)

45. Malaysian Institute of Certified Public Accountants (MICPA)

The proposal should provide greater scalability taking into consideration of the practicability of the proposal for small-medium practitioners (SMPs). A “one size fits all” approach would impose challenges on SMPs.

In view that competition can help to drive innovation which may bring down the costs of audit fees, due consideration to clarify that lower fees than the predecessor auditors may not automatically mean that there is an increased threat to auditors.

49. Wirtschaftsprüferkammer (Germany) (WPK)

We would propose to IESBA to issue staff guidance outside the Code.

We do not think that there is a need for these proposals and may refer to our explanations above (questions 1 and 2)

Firms

51. BDO International Limited (BDO)

We would recommend adding the firm’s remuneration practices as an example of relevant conditions, policies and procedures to 120.8 A2.

For the proposed new factor in 320.3 A4 and 410.4 A2 ‘The level of fees and the extent to which they have regard to the resources required, taking into account the firm’s commercial and market priorities and position.’ we recommend revising the wording; although we believe we understand the sentence, it is not all that clear and may present translation issues. Additionally, the auditing standards require auditors to assign appropriate resources without consideration of fee levels which would prevent such a direct connection. Therefore, notwithstanding our comment on the overall wording of this sentence, we believe it should also be phrased in terms of a ‘perception’ i.e. ‘The level of fees and the extent to which they are perceived to
have regard to the resources required, taking into account the firm’s commercial and market priorities and position.’

**Crowe Global (CROWE)**

As we have commented above IESBA has to address the distinction between fee issues arising for PIE and non-PIE audits.

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

As noted in our responses to Questions 1 and 2 above, we believe that compliance with the Code sufficiently addresses any risk that independence is impacted by the “client relationship” that is created by the fact that the entity being audited pays the audit fees. We therefore do not have views or suggestions as to further factors and continue to support the existing principles-based approach in the extant Code.

We also consider that the relevant conditions, policies and procedures already form part of the existing framework that addresses such risk, including laws regulating audit appointments; laws that may require the audit firm to provide certain other services; the role of the audit committee in overseeing auditor appointment, compensation and independence; professional and quality standards on the staffing and resourcing of audits; tender processes; the prohibition on audit partners being compensated for the sale of non-audit services; external inspections; and quality control monitoring required under existing International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and proposed International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.

**54. Ernst & Young Global Limited (EY)**

As stated above, we do not agree with the IESBA that there is a presupposition that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client.

In addition, the IESBA should give greater recognition and acknowledgment of such standards as the current standards on systems of quality control and proposed ISQM 1 and the International Standard on Auditing (ISA) 220. Both these standards deal with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.

**55. Grant Thornton International Limited (GTIL)**

GTIL does not have views or suggestions regarding further factors IESBA should consider relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the client, because we don’t believe this situation creates threats to auditor independence for the reasons outlined in 1. above.

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

We support providing examples of how the level of threats can be evaluated.

410. A2 - The first bulleted point references “external review.” Please add an example or otherwise clarify what would be an example of an external review and how this review after the work is completed would impact the self-interest threat. In relation to the third bulleted point, we believe it would be difficult for an auditor to discern “the apparent emphasis [TCWG] and client management place on the quality of the audit and the overall level of fees,” particularly in relation to the overall level of fees.

**58. Moore Global Network Limited (MOORE)**

We agree that the existence of a quality management system should also impact on the evaluation of threats as include in para 410.4.A3.

**60. PricewaterhouseCoopers International Limited (PWC)**

Subject to our response to Question 2, we support the inclusion of these factors (410.4 A2) as a helpful summary of the issues.
To these we suggest adding “overdue fees” and “fee dependency” at the firm/office level.

The factors could also be enhanced by making reference to the fact that competition can help to drive innovation in audit practices and might help drive down costs. As such, a lower fee than the predecessor auditor does not automatically mean that there is an increased threat to independence.

**Others**

63. IFAC Small and Medium Practices Committee (IFAC SMPC)

The "checks and balances" from corporate governance structures (e.g. where TCWG have a role in auditor appointment) can be used to evaluate the threat of an audit client payer model.

In some circumstances, there may be instances whereby some of the fees for services are set by local law or regulation (e.g. with a fee scale).

2. No comments or suggestions

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

1. Bangladesh Financial Reporting Council (BFRC)
2. Committee of European Auditing Oversight Bodies (CEAOB)
4. Irish Auditing & Accounting Supervisory Authority (IAASA)
7. International Organization of Securities Commissions (IOSCO)
8. National Association of State Boards of Accountancy (NASBA)

NASBA has no suggested additions to the factors described in 410.4 A2.

9. Malaysian Audit Oversight Board, Securities Commission (MAOB)

The AOB has no other suggestions on additional factors relevant to evaluate the level of threats created when fees for an audit or any engagement are paid by the audit client.

**Public Sector Organizations**

12. Auditor General of South-Africa (AGSA)

**Preparers and Those Charged with Governance**

14. Japan Audit & Supervisory Board Members Association (JASBMA)

**Independent National Standard Setters**

15. Accounting Professional & Ethical Standards Board Australia (APESB)

APESB does not have any further suggestions for additional factors to evaluate the threats created by fees.

16. New-Zealand Auditing & Assurance Standard Board (XRB)

The NZAuASB did not identify, through its outreach, any further factors relevant to evaluating the level of threats created when fees for an audit or other engagement are paid by the audit client.

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

19. American Institute of Certified Public Accountants Professional Ethics Executive Committee (AICPA)

20. Association of the Italian Audit Firms (ASSIREVI)

22. Chartered Accountants of Ireland (CAI)

23. Compagnie Nationale des Commissaires aux Comptes (CNCC)

26. European Federation of Accountants and Auditors for SMEs (EFAA)
27. Institute for Accountancy Profession in Sweden (FAR)
28. Hong Kong Institute of Certified Public Accountants (HKICPA)
29. Instituto dos Auditores Independentes do Brasil (Ibracon)

Similar to our comments on the questions 1 and 2 above, we do not have views or suggestions given that we believe that the risk of creating independence threats is already addressed in the entire Code.

34. The Institute of Chartered Accountants of India (ICAI)
35. The Institute of Chartered Accountants of Scotland (ICAS)

42. Korean Institute of Certified Public Accountants (KICPA)
41. Japanese Institute of Certified Public Accountants (JICPA)

We have no proposals for additional items other than those factors (or conditions, policies and procedures) listed in paragraphs 410.4 A2, 410.4 A3, etc.

43. National Board of Accountants & Auditors – Tanzania (NBAAT)
46. New York State Society of CPAs (NYSSCPA)
47. Royal Netherlands Institute of Chartered Accountants (NBA)

**Firms**

50. Baker Tilly International (BKTI)
57. Mazars Group (MAZARS)
61. RSM International Limited (RSM)

We do not have suggestions for further factors relevant to evaluating the level of threats associated with fees.

**Others**

62. US Center for Audit Quality (CAQ)
64. Porus Pavri (PP)
ED Questions 3

B) In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence?

The respondents’ responses for 3B are divided into 4 groups:

1. Support with minor amendments
2. Support with reservations
3. Does not support
4. No comment

1. Support with minor amendments

Regulators and Oversight Authorities, Including MG members

9. Malaysian Audit Oversight Board, Securities Commission (MAOB)

The AOB is supportive of recognising, as an example, the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence.

Public Sector Organizations

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

The current model in many jurisdictions, as acknowledged above, is that audit fee negotiations take place between the auditor and entity management and governors, acting on behalf of the shareholders of the entity. Because those who are accountable to the entity’s shareholders for their actions (entity management and governors) also carry out these negotiations on behalf of the entity’s shareholders, this presents a conflict of interest. This conflict of interest, in the majority of cases, does not impact on the audit-fee negotiation process. However, the negotiation tends to have an entity centric focus as opposed to a public interest focus – when the negotiation needs to strike a suitable balance between entity interests and the wider public interest.

The auditor’s bargaining power in the fee-negotiation process is diminished because there is often another auditor ready and waiting to accept the audit on the terms and conditions of the entity negotiators. Entity representatives will sometimes take advantage of this situation to “leverage” audit fee negotiations. Auditors do not want constructive relationships with entity personnel to be soured by overly aggressive audit fee negotiations because those relationships are critical to on-going audit quality.

Although such a model doesn’t exist in New Zealand to our knowledge, the presence of an independent “shareholder committee” may remove the conflict of interest when those who are accountable to the entity’s shareholders for their actions (entity management and governors) also carry out audit fee negotiations on behalf of the entity’s shareholders.


We agree that the existence of an independent committee that advises the firm on governance matters might affect the firm’s independence. We do not believe that providing this as an example would require firms to adopt this type of governance structure.

Professional Accountancy Organizations (PAO’s)

30. Inter-American Accounting Association (IAA)

Furthermore, we agree that the firm has an independent committee to advise it on government matters that could affect its independence.
31. Institute of Chartered Accountants of Bangladesh (ICAB)
We do support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence as noted in the para 30 of the Explanatory Memorandum.

32. Institute of Chartered Accountants in England and Wales (ICAEW)
The existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence is but one means of arriving at a situation where the level of the audit fee is not dependent on keeping the executive management of the audited entity happy.

34. The Institute of Chartered Accountants of India (ICAI)
It is fine with us.

35. The Institute of Chartered Accountants of Scotland (ICAS)
The evaluation of fees is a two-way engagement between the audit firm and those charged with governance of a client. For example, the UK Corporate Governance Code requires listed companies to establish an audit committee of independent non-executive directors which, amongst other matters, is required to oversee the company’s relations with its external auditors including the negotiation and monitoring of fee dependency and ratio of audit to non-audit work fees. In turn, the FRC Ethical Standard requires auditors to provide details of non-audit / additional services provided and the fees charged.

We would support recognising as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence.

2 Support with reservations

Regulators and Oversight Authorities, Including MG members

10. United Kingdom Financial Reporting Council (UKFRC)
An independent committee within the firm, which advises the firm on governance matters that might impact the firm’s independence, may help address issues that impact independence, but to engender trust, stakeholders would need transparency as to the make-up of the committee, how it operates, fees paid, the nature of the advice it gives and how the firm responds to that advice.

Public Sector Organizations

12. Auditor General of South-Africa (AGSA)
For large firms, we support the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence. However, these might not be possible for medium and definitely smaller firms.

Independent National Standard Setters

15. Accounting Professional & Ethical Standards Board Australia (APESB)
APESB is supportive of the inclusion of the example of the independent committee as an example of a condition, policy or procedure a firm may undertake, which helps them to identify and evaluate threats. The inclusion of this example would be best placed in proposed paragraph 410.4 A3.

Australian stakeholders were of the view that smaller firms may not have the resources to create such a committee, nor be able to demonstrate it is independent, but that this example could be relevant to medium or large firms.

Professional Accountancy Organizations (PAO’s)

17. Joint Submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (ACCA-CAANZ)
We would not support the recognition of the existence of an independent committee advising the firm on governance matters that might impact the firm’s independence as an example of a relevant factor in evaluating the level of fee-related threats. We have concerns about the operational cost of an independent committee, in particular for smaller firms, and we feel it would not deliver improvements in audit quality and auditor independence.

24. CPA Australia (CPAA)

CPA Australia considers that there might be a role for an independent committee which advises the firm on governance matters impacting the firm’s independence, but this role should be proportionate to the size of the firm and may be cost prohibitive for smaller firms. An independent committee that provides recommendations based on applying the principles of the Code may provide a safeguard for self-interest threats. This safeguard would only apply where the recommendations of the committee are adopted.

25. Chartered Professional Accountants Canada Public Trust Committee (CPAC)

We generally support the existence of an independent committee which advises the firm on governance matters that might impact the firm’s independence as an example of relevant conditions, policies and procedures. However, we received consistent feedback that it may not be feasible to implement for many firms based on their size and structure. We believe that acknowledging this likely impracticality for many firms when citing an independent committee as an example would be appropriate.

We also believe the inclusion of application guidance with examples of possible governance matters that would impact the firm’s independence would be helpful for all practitioners.

26. European Federation of Accountants and Auditors for SMEs (EFAA)

We support in principle the idea of an independent committee.

We question, however, whether this is feasible in smaller SMPs with few professional staff.

44. Malaysian Institute of Accountants (MIA)

We broadly agree that the level of fees should be considered for independence purposes. Based on varying legal requirements and level of capital market developments across different jurisdictions, an independent committee may not be practical especially for small- and medium-sized practices (SMPs) that lack sufficient appropriate personnel.

48. South African Institute of Chartered Accountants (SAICA)

Although SAICA supports recognising as an example of relevant conditions, policies and procedures the existence of an independent committee, we are not sure about the practical application or implementation of such a committee to SMMEs.

**Firms**

58. Moore Global Network Limited (MOORE)

The governance arrangements within the firm, and in particular the existence of an Independent Committee would be a valid and appropriate example of a way in which firms could evaluate the level of threat in relation to fees. This should only be presented as an example and not a requirement given that it could be impracticable for smaller firms to implement – particularly in the current circumstances.

3 Does not support

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

8. National Association of State Boards of Accountancy (NASBA)

NASBA has no suggested additions to the factors described in 410.4 A2. Although we do not believe it would be appropriate for an independent committee to be apprised of client specific fees or other confidential information, we do believe such a committee could advise on overall governance regarding fee matters that could impact a firm’s independence.
**Professional Accountancy Organizations (PAO’s)**

**18. Accountancy Europe (AE)**

An independent committee may be part of an audit firm's overall governance system. However, we question, if at all permissible under given legislation, whether the mere involvement of such a committee in fee discussions with a particular audit client would mitigate the perceived independence threat. We believe that this responsibility should stay with TCWG of the audit client and refer to our response to Q1. Moreover, we are concerned that inclusion of questions regarding the governance of audit firms like this element as an example in the Code goes beyond the remit of IESBA as the standard setter on ethics and independence for professional accountants.

**19. American Institute of Certified Public Accountants Professional Ethics Executive Committee (AICPA)**

We do not believe it is necessary for the IESBA to add as a possible safeguard “the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence”. Additionally, we believe this could pose operational challenges for most firms.

**21. Botswana Institute of Chartered Accountants (BICA)**

Existence of an independent committee would not be feasible given that audit firms are partnerships and want to contain matters of their operations without involving external parties. Even so, where the committee is establishment it would not have any powers over the firm and therefore would be ineffective.

**22. Chartered Accountants of Ireland (CAI)**

We would note that in PIE audit clients, where the key stakeholders are members of the public as shareholders, the Audit Committee fills this role and reviews and monitors fees paid for audit and other professional services from the audit firm.

Additionally, an audit firm’s governance structures and quality management structures already include mechanisms for monitoring the level of fees, paid and unpaid and fees for non-audit services.

At an engagement level within the audit firm the role of the Engagement Quality Control Reviewer will provide additional safeguards with regard to adherence to procedures and policies regarding independence. Accordingly, we do not feel there is a need for any further procedure or policy in this area.

**23. Compagnie Nationale des Commissaires aux Comptes (CNCC)**

We concur with the views expressed within IESBA that giving the example of Independent committee of the firm advising on Governance matter as a safeguard" to the inherent self-interest risk of the "audit client payer model" would go beyond the remit of this project. It would even go beyond the mandate of the IESBA which role is not to issue guidance as to how the firms should be organized.

ISQM is the standard which deals with how the firms should get organized to manage quality (including Independence). If such an example was to be given it would be better placed in ISQM than in the IESBA Code.

But overall, we are not in favor of mandating or even recommending such independent committee. It would create a difference between the large firms and the smaller firms, because a small firm would never be able to have such an independent committee advising it on governance matter. It could lead to a severe reduction in the number of PIE audit firms, as we already see in certain countries where there are less than 10 PIE audit firms left, and ultimately to a further concentration of the market.

The existing Governance of the firms together with the Governance of the audit clients should be able to deal with issues of Independence if and when they occur.

**28. Hong Kong Institute of Certified Public Accountants (HKICPA)**

Local stakeholders consider adding an independent committee to firms for governance matters that impact independence appear to be overly demanding and it is not common for other professions that handle clients
with significant public interest or not compulsory even for listed entities. With global application of the code, it may not be practical to some less well developed jurisdictions.

In addition, how would this independent committee fit into the proposed Quality Management Standards being developed by the IAASB? If such an independent committee is to be established, we could suggest the IESBA to work with the IAASB and provide guidance on how the alignment would work.

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

Also, having an independent committee is a relevant factor but we do not believe that this may bring additional safeguards for any independence threats as outlined above.

33. **Institute of Chartered Accountants Ghana (ICAG)**

In particular, we do support the existence of an independent committee (either an audit committee or TCWG) as a solid measure to evaluate the threat level associated with auditor independence. Where there is an independent audit committee of the audit client, the IESBA should consider reassigning the responsibility of paying the auditor to be done by the committee. This will require the allocation of funds to the audit committee. It will be a good idea to still disclose specific information relating to relevant activities of the committee in the notes section of the financial statements.

36. **Institute of Certified Public Accountants of Uganda (ICPAU)**

Whereas the existence of an independent committee that advises the firm on governance matters might mitigate the threats to the firm's independence arising from fees paid by an audit client, we do not believe that providing this as an example will be particularly useful for Small and Medium Practices (SMPs). SMPs may find this measure too onerous as it would imply a total restructuring of their corporate governance structure. Therefore, the existence of such committee should be left to be guided by each individual firm's corporate governance structure and assessment of the fee-related risks.

37. **Institute der Wirtschaftsprüfer (Germany) (IDW)**

The IDW would not support IESBA including a firm's internal independent committee advising on governance matters as an example, on the basis that a few isolated jurisdictions now have such measures in place.

We support the inclusion of various examples of mitigating factors that may be encountered in practice (not, however, as “good practice” for all firms) as helpful to practitioners in firms of all sizes.

38. **Mexican Institute of Public Accountants (IMCP)**

It is not necessary to add an independent committee to address this matter.

41. **Japanese Institute of Certified Public Accountants (JICPA)**

Advice from an independent committee may be an effective means for firms to evaluate impartially the level of threats created by fees paid by the audit client, but an independent committee is established as part of the governance structure of a firm, and because still limited number of firms have put such an independent committee in place, we do not believe it appropriate to include it as an example in the Code of Ethics at this point.

42. **Korean Institute of Certified Public Accountants (KICPA)**

Given that the paragraph 120.8 A2 in the Code includes examples of such conditions, policies and procedures, we can say that the governance of firms is also included in the factors, thus making it unnecessary for the existence of an independent committee to be included as an additional example.

43. **National Board of Accountants & Auditors – Tanzania (NBAAT)**

We do agree, but there is no need of establishing a new independent committee, we are of the view that independent committee which is responsible for audit matters (Audit Committee) can work on audit fee issue. Furthermore, forming a new independent committee can increase cost to the audit client.

46. **New York State Society of CPAs (NYSSCPA)**
IESBA has proposed an independent committee to advise the firm on governance matters that might impact the firm’s independence. Such a committee is only likely to exist at the largest of firms, which do not make up the majority of firms world-wide. Accordingly, the application of such a governance advisory committee is in our view impractical as it is highly unlikely firms will allow outsiders into their pricing and governance considerations.

49. Wirtschaftsprüferkammer (Germany) (WPK)

In particular we do not see any necessity for recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee.

Whether such as committee exists depends on the firm’s corporate governance structure and therefore does not fall into IESBA’s remit.

50. Baker Tilly International (BKTI)

We do not support the example provided around establishing an independent committee which advises the firm on governance matters in the way outlined in the exposure draft. Although this may be appropriate for larger firms it would be impractical and perhaps even inappropriate to expect small and medium sized practices to establish such committees given their lack of resources and the difficulty they may have in demonstrating the independence of such committees.

We acknowledge that this proposal would only be an example. However, international standard setters need to be mindful of the unintended consequence that many suggestions in application material within the standards are interpreted as requirements by regulators.

51. BDO International Limited (BDO)

The structure and governance of firms are specific to the facts and circumstances and matters of this type, although relevant to independence, are better to consider under the broader heading of corporate governance which is already included in section 120.8.

52. Crowe Global (CROWE)

The proposal for an independent committee is relevant in an environment where the audits of PIEs are significant. An independent committee is appropriate in a firm that audits a significant number of PIEs. The resources required to support such a committee might be regarded as a barrier of entry to the audit market as a whole or to the PIE audit market, thereby limiting choice of audit firms. Limiting choice is not in the public interest, potentially increasing fees and limiting investment and innovation in the audit practice, resulting in a risk of impairment to audit quality.

Therefore, IESBA ought to reflect carefully on developing proposals for independent committees, with the aim of achieving the right balance.

53. Deloitte Touch Tohmatsu Limited (DTTL)

We do not believe the existence of an independent committee that advises the firm on governance matters (even if such matters include the remuneration of audit engagement partners) would have any bearing on the level of a self-interest threat to independence on an individual audit engagement and therefore it is not a relevant factor in the context of fees.

54. Ernst & Young Global Limited (EY)

We do not support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters. The Explanatory Memorandum notes in paragraph 30 that there were views that inclusion of this example as a factor would go beyond the remit of this project, and we agree with this view.

Further, members of such an independent committee would be required to achieve personal independence under the Code in order to have a say over fees for any given client. This raises serious practical considerations besides adding undue cost burdens to audit processes. We do not believe it would be
appropriate for the IESBA to address matters regarding the governance of a firm. We believe governance of a firm is adequately covered by existing standards on quality control and proposed ISQM 1.

Lastly, an appropriate fee level for a particular audit engagement depends on many factors and it is not practicable for a Code with global application to prescribe a specific fee level, not least because of anti-completion laws in many jurisdictions.

56. KPMG IFRG Limited (KPMG)

However, we do not believe that requiring an independent committee which advises a firm on governance matters that might impact the firm's independence should be part of the Code. This type of requirement is better suited to legal or regulatory requirements, such as those in some jurisdictions where firms auditing PIE audit clients are required to have a supervisory board made up of external members.

57. Mazars Group (MAZARS)

We support the examples of relevant conditions, policies and procedures, however we do not believe that the creation of an independent committee which advises the firm on governance matters that might impact the firm's independence should be mandated. We think that this would be difficult for smaller firms to introduce and therefore potentially place them at a competitive disadvantage which would be undesirable.

As an alternative, we recommend that the firm should appoint a partner, who has appropriate seniority/authority, who is responsible for quality at a firm level and who can advise the firm's leadership on matters that may impact the firm's independence.

61. RSM International Limited (RSM)

We agree with the views within the IESBA that inclusion of an independent committee as a relevant condition would go beyond the remit of this project as the existence of such a committee would depend on the firm's corporate governance structure.

Others

63. IFAC Small and Medium Practices Committee (IFAC SMPC)

While the SMPC acknowledges that the creation of an independent committee to advise on governance matters that might impact a firm's independence is still at a very nascent stage in many jurisdictions, the Committee is of the view that such a structure is simply not feasible for most SMPs.

4. No comment

Regulators and Oversight Authorities, Including MG members

1. Bangladesh Financial Reporting Council (BFRC)
2. Committee of European Auditing Oversight Bodies (CEAOB)
4. Irish Auditing & Accounting Supervisory Authority (IAASA)
5. Independent Regulatory Board for Auditors (IRBA)
6. International Forum of Independent Audit Regulators (IFIAR)

Preparers and Those Charged with Governance

14. Japan Audit & Supervisory Board Members Association (JASBMA)

Independent National Standard Setters

16. New-Zealand Auditing & Assurance Standard Board (XRB)

While we are aware that some jurisdictions require an independent committee that advises the firm on governance matters that might impact independence. The existence of such a committee is not a requirement in New Zealand.
Firms

55. Grant Thornton International Limited (GTIL)

We believe independent directors play a vital role by serving on firms/networks’ boards because they bring an outside perspective to help improve governance standards, corporate credibility, and risk management. Furthermore, we believe this is a practice the profession is utilizing more consistently to achieve quality and accountability in their organizations.

However, we are unclear as to the proposal by the Board as it relates to the existence of an independent committee to advise on governance matters of a firm, as most firms do not have separate independence or governance committees, nor is there a framework for audit fees to be separately approved. Therefore, we are unable to provide comments on this example.

60. PricewaterhouseCoopers International Limited (PWC)

Professional Accountancy Organizations (PAO’s)

20. Association of the Italian Audit Firms (ASSIREVI)

27. Institute for Accountancy Profession in Sweden (FAR)

39. Institute of Public Accountants (Australia) (IPA)

We note that answers to the question posed would add to complexity of decision-making by audit firms. We would refer the IESBA articulate principles rather than continue to ‘enhance’ rule making complexity.

45. Malaysian Institute of Certified Public Accountants (MICPA)

47. Royal Netherlands Institute of Chartered Accountants (NBA)

Others

62. US Center for Audit Quality (CAQ)

64. Porus Pavri (PP)