

**ED Question 4:**

Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

The respondents' responses are divided into four groups:

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

### 1. [Support with minor amendment](#)

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

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

Yes.

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

Yes. We have such a requirement in our Ethical Standard.

#### **Public Sector Organizations**

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

We support this proposal.

##### **12. Auditor General of South-Africa (AGSA)**

In our view the level of the audit fee should be based purely on the amount of work required for audit services and priced accordingly. Once the firm allows the level of the audit fee to be influenced by the provision of other service, it significantly increases the self-interest threat to independence.

##### **13. United States Government Accountability Office (GAO)**

We support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the firm or a network firm having provided services other than audit to the audit client.

#### **Independent National Standard Setters**

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

The NZAuASB supports the requirement in paragraph R410.6. Outreach indicated that, in New Zealand, the level of audit fee is not influenced by the provision of services other than audit to an audit client. This position is further supported by review of academic research in New Zealand.

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

##### **18. Accountancy Europe (AE)**

Yes, we support the requirement that the audit fee should not be influenced by the provision of other services. This is already a requirement set out in Art. 25 a) of the EU Audit Directive.

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

We agree with the proposal. In putting forward a fee a firm ought to only consider elements associated with the audit at hand and not any other service it provides to the client or as provided by its network firm.

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

Yes, we agree that the provision of other services, by the firm or a network firm, should not influence the level of the audit fee.

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

We believe that the level of audit fees must be sufficient to enable the auditor to perform a high quality audit irrespective of whether there are, or not, other services provided to the audit client; so that the audit can stand alone even if there are no other services provided to the audit client.

However, when it comes to the question of the firm's fee dependency from one audit client, it is necessary to consider both audit and non-audit services provided to that client.

Finally, we believe that there appears to be a certain contradiction between paragraphs 410.6 A1 and A2, where A1 seems to say that the provision of other services should not influence the determination of audit fees while A2 recognizes that the provision of other services can generate cost savings on the audit.

## **24. CPA Australia (CPAA)**

CPA Australia supports the requirement in paragraph R410.6 which clarifies the position that it is expected that the audit fee will stand alone and not be contingent on or influenced by the provision of any other service by the firm.

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

We support this requirement.

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

Yes, we support the proposed requirement. The pricing practice of services other than audit to the audit client may create certain level of independence in appearance issue. We acknowledge it may create fee pressure to SMPs when they provide permissible one-stop services (e.g. audit and tax return submission service) to non-PIE audit clients, and charge a lower aggregated fee than sum of price of services listed individually due to efficiency. The provision should further consider how these kind of arrangements can be addressed.

## **30. Inter-American Accounting Association (IAA)**

Yes, we support the understanding that the setting of fees for the financial statement audit service should be conditioned only on factors evaluated by the firm related to the provide service and should not be related to the condition of providing another type of service other than the auditory; For example, it is not appropriate to reduce financial statement audit fees on the condition that the audit client provides a different service to compensate for the reduction in audit fees.

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

Yes, we do support that a firm shall not allow the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client as stated in paragraph R410.6.

We also believe it is in the public interest to make clear in the Code that the fee for an audit engagement is a standalone fee and that it should not be considered as part of a spectrum of fees that might be charged to the audit client. Hence, the provision of other services by the firm or a network firm to the audit client should not influence the audit fee.

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

Yes. As the Exposure Document notes, fees can be influenced by many factors so in practice it would be difficult to determine whether this requirement had or had not been complied with. However, the point made by the requirement is important and from a perception perspective, it is important to be able to illustrate that there is no clear link. This is why the requirement is already in place in the UK and the European Union.

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

Per 410.5 A 1, determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

The guidance indicates that usually, considerations affecting the level of the fee include:

- The scale, complexity and geographic spread of the audit client's operations.
- The time spent or expected to be spent commensurate with the scope and complexity of the audit.
- The cost of other resources utilized or expended in performing the audit.
- The quality of record keeping and processes for financial statements preparation"

We therefore agree that provision of services other than audit should not be a factor affecting the level of audit fees.

### **34. The Institute of Chartered Accountants of India (ICAI)**

This is fine with us

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

Yes – we agree with the requirement in paragraph R410.6 that a firm should not allow the level of the audit fee to be influenced by the provision by the firm, or a network firm, of services other than audit to the audit client.

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

ICPAU supports the requirement for the level of the audit fee not to be influenced by the provision of services other than audit to the audit client because the audit and other services provided are inherently different assignments which should be handled independently so as to maintain independence. The level of the audit fees should instead be influenced by other relevant factors such as the scope of the work to be performed, nature of the client's business, etc.

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

Yes. We support this requirement.

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

Yes

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

Yes, we agree with the proposal, however the continued provision of non-assurance services within the proposals undermined the implicit principle.

We strongly recommend that the cost saving paragraph 410.6 A2 be removed as it undermines the principle paragraph R410.6. Cost savings to the firm are an influence.

### **40. Institute of Singapore Chartered Accountants (ISCA)**

Yes, we support the requirement in proposed paragraph R410.6. However, the challenge lies in demonstrating compliance with this requirement. This requirement is in substance a precept regulating behavior and more research is required in this area.

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

We support the IESBA proposals.

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

The paragraph 410.6 seems to prevent a threat to independence arising from the self-interest threat, which is in line with the purpose of the extant Code that requires a firm not charge a contingent fee for an audit engagement. Therefore, we support the requirement of the paragraph R410.6.

The paragraph 410.6 A2 explains that the paragraph R410.6 is not intended to prohibit cost saving, but the explanation seems unnecessary, as we consider.

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

We do support the requirement in paragraph R410.6

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

We support the proposed requirement but would propose that paragraph R410.6 be revised to: A firm shall not take into account the provision by the firm or a network firm of services other than audit when determining the audit fee. This is because we are of the view that the term “influenced” is subjective and provides broad latitude of interpretation.

We also believe that the more senior PAIB individuals whom the auditors interact with during an audit be made aware that the determination of audit fees should be premised on ensuring sufficient appropriate resources to perform the audit engagement in compliance with auditing standards are assigned or made available without any relationship with services other than the audit itself. This could be reflected in sections of the Code for PAIB.

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

SAICA agrees that the audit is a fiduciary function and professional judgement needs to be shielded from external factors that may give rise to threats of bias. The audit fee must be computed based on reasonable time required, degree of skill and expertise and the nature and extent of required audit work, the level of audit risk, and provide sufficient evidence to justify an opinion on the reasonableness and appropriateness of the financial position and performance of the client. Further to this the application material allows for the auditor to benefit from the experience of carrying out non-audit duties, through cost savings.

It is however important to also note the fact that “audit fee” would include fees for independent reviews. This might create a bigger threat to smaller firms, where they provide accounting and other services as well as the independent review. The proportion of other fees could be quite significant versus the independent review fee and smaller firms would need to take cognisance of this and might need to reconsider their business models.

#### **49. Wirtschaftsprüferkammer (Germany) (WPK)**

We support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client. This requirement is in line with Art. 25 a) of the EU Audit Directive (2006/43).

### **Firms**

#### **50. Baker Tilly International (BKTi)**

Yes, we support this requirement. It is clearly inappropriate for the audit fee to be influenced by other services provided to the audit client. The audit fee should reflect the matters identified in 410.22 A1 and 410.6 A2 and the auditor should be able to demonstrate that the fee is sufficient to comply with professional standards and other requirements.

However, it is also important to note that when clients put the audit out to tender it is usually to test the market to see if they can get a better deal on the audit fee. We believe that there should be strong requirements on Professional Accountants in Business with regard to agreeing an appropriate fee for the audit. In this regard we believe that the conforming amendments in 270.3 A3 are not sufficient and would recommend a specific requirement be added to R270.3 requiring Professional Accountants in Business to ensure that audit fees are sufficient to enable the auditor to comply with professional standards and requirements.

#### **52. Crowe Global (CROWE)**

We agree with this requirement.

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

GTIL supports the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client.

### **57. Mazars Group (MAZARS)**

We agree that the audit fee should be negotiated at a level which will enable the auditor to perform a high quality audit and should not take into account any other services provided by the firm.

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

Yes, this should be the position that all firms should take.

However in practice, particularly in light of the significant and unexpected economic downturn due to the recent pandemic, this may be difficult for many firms to operate in practice whilst they are faced with the real commercial pressures of ensuring the ongoing viability of their firm, and the likely pressures to reduce the full package of fees previously charged to audit clients. We therefore suggest that IESBA takes into account these COVID-19 challenges

### **61. RSM International Limited (RSM)**

Yes, we support this. However, paragraphs 410.6 A1 and A2 could be read as being contradictory; A1 states that the provision of other services should not influence the determination of audit fees while A2 recognizes the provision of other services can generate cost savings on the audit.

### **Others**

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

While the SMPC is supportive of this requirement, it is equally important for clients to be convinced of this message in the first place. We believe this is an area that IESBA's outreach will be extremely valuable for the profession. It is also preferable that an appropriate transition period should be provided for jurisdictions where the pricing practice may have been influenced by the provision of services other than audit to the audit client in the past, a clear divergence to the requirement under R410.6. These are areas that Professional Accountancy Organizations (PAOs), with the support of IESBA, could do more to create awareness among their members as well as the public.

At the same time, the IESBA, IAASB, IFAC, PAOs, as well as other stakeholders can all have a significant role in trying to change the perception that audit is a valuable service and not a mere commodity. Clear communication messages about the relationship between audit quality and fees can continue to be highlighted to management and those charged with governance, as well as to the public.

## **2. Support with reservations**

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

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

Yes, with clarifications. We agree with the introduction of R410.6, but we request further clarification. It is unclear what action relating to this requirement would be required; therefore, we question the robustness of this requirement. In relation to the proposed wording, it would be helpful to understand better what is meant by "to be influenced by".

As mentioned above, this requirement requires practical consideration and clarification. There may be difficulties in assessing or matching the level of fees and the effect of non-audit fees. An audit engagement is for a specific period, while several non-audit engagements may extend over several years. The calculation of the fees will also need closer attention and clarification (i.e. will this calculation be done on fees billed, fees paid or on a proportionate recognition method.).

Additionally, in a large network this consideration will include several teams across different jurisdictions. Thus, audit firms will need to ensure that all information is available when making this assessment.

We can reasonably expect the inverse to hold true as well, i.e. the firms shall not allow the non-audit fees to be influenced by the provision of the audit fee by the firm or a network firm.

It would be interesting to understand how a firm will comply with R410.6 and the achievement of cost savings as envisioned in 410.6 A2. It would seem reasonable that a firm would need to document either in the proposal or acceptance consideration where this determination was made.

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.

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

Paragraph R410.6 should be expanded to read: "A firm shall not allow the audit fee to be established, adjusted for or influenced by the provision by the firm or a network firm of services other than audit to the audit client."

The second sentence of Paragraph 410.6 A1 should be moved to the requirements section and be strengthened to read: "The provision of other services to the audit client shall not be a consideration in determining the audit fee."

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

NASBA believes audit fees should be negotiated on a standalone basis to address self-interest and intimidation threats. However, such a requirement may be challenging to operationalize and enforce as many factors go into the determination of fees. For example, paragraph 410.6 A2 already recognizes that the audit fee can be influenced by the knowledge the firm gains by providing other services to the audit client. There is also a need to ensure that any such restrictions comply with U.S. federal and state antitrust laws.

### **Independent National Standard Setters**

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

APESB strongly supports the intent of the proposed paragraph R410.6 but is concerned that the drafting, such as the use of the word ‘influence,’ will make this requirement very difficult to monitor and enforce in practice.

There is no proposed guidance in the Fees Exposure Draft as to how the term influenced is to be interpreted or what that would equate to in practice. It raises the question of how an auditor will be able to prove that the provision of other services has not influenced them. The only way this could be done with absolute certainty is not to provide any other services. It is not clear whether this requirement would be satisfied by the audit engagement partner documenting the rationale for the fee they propose to charge and how they determined that it was appropriate. APESB encourages the IESBA to consider providing guidance on documentation in relation to fees.

APESB recommends that the IESBA reconsider the use of the term ‘influence’ or to include other terms that can be quantified, such as ‘affected,’ ‘determined’ or ‘impacted.’ APESB also recommends that the guidance in paragraph 410.22 A1 relating to considerations affecting the level of the fee be replicated as guidance material relating to paragraph R410.6. It would be useful to have these factors for consideration at the start of the section on fees

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

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

The fee for an audit engagement is a standalone fee and should not be considered as part of the spectrum of fees charged to the audited entity for other services. We welcome the clarification of the impact of other services provided to an audited entity within the new requirement in paragraph R410.6. Nevertheless, we have concerns about the practicality and enforceability of this provision and we suggest further consideration is given to how this can be enforced in practice. The use of appropriate remuneration policies and firm culture to send clear messages to partners about how such decisions should be made is possible, but it is difficult to know or evidence what is actually influencing a partner’s decision.

#### **20. Association of the Italian Audit Firms (ASSIREVI)**

Assirevi supports the principle underlying this rule. The level of audit fees shall not be affected by fees originating by non-audit services. Nonetheless, in the Association's opinion, if the IESBA were to express this principle through the rule set forth in paragraph R410.6, this would give rise to significant practical issues, especially with regard to how compliance with this provision should be documented.

The determination of audit fees is the outcome of a business decision that takes into account several facts and circumstances relating to the engagement. As indicated in paragraph 410.6 A1, the level of audit fees is influenced by various factors, such as the level of complexity of the engagement, the resources required both in quantitative and qualitative terms, the quality of the financial reporting preparation and control processes put in place by the entity, and the applicable financial framework. Moreover, the level of audit fees is also influenced by factors falling outside the specific scope of the engagement, such as the market in which the audit firm and the audited entity operate, or business reasons that an audit firm might follow in order to be granted an engagement connected to a specific industry or geographical market.

In this respect, it is worth noting that the guideline set forth in paragraph 410.6 A2 also clarifies that R410.6 is not intended to prevent cost savings achieved due to the experience that an auditor might have gained through the provision of non-audit services. This implicitly acknowledges the legitimacy of certain circumstances in which the provision of non-audit services can indirectly influence the level of audit fees.

In light of the above, it would be hard to identify the documentation requested to support compliance with this provision – which would inevitably entail the risk that a generic declaration of compliance might eventually satisfy the request, without any actual value being added to the quality of the audit.

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

We support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client. However, we believe this requirement will be difficult to enforce in practice because whether the level of the audit fee was influenced by the provision of other services will be a subjective evaluation. Application guidance as to how a firm can demonstrate that the level of the audit fee has not been influenced by the provision by the firm or a network firm of services other than audit to the audit client may therefore be helpful in this regard.

#### **45. Malaysian Institute of Certified Public Accountants (MICPA)**

We support the requirement in paragraph R410.6. However, the word “influenced” can be subjective and firms will find it difficult to demonstrate that they were not influenced. A rewording is recommended.

### **Firms**

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

We believe the term ‘influenced’ is too broad and would recommend it be replaced by the concept of being ‘determined’ based on services other than audit.

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

We agree that the fee for an audit engagement must be a standalone fee and should reflect the cost of resources to be utilized, expertise needed, complexity and geographic spread of the client’s operations and the expected time to be spent commensurate on scope, scale and complexity. Accordingly, the provision of other services by the firm or a network firm to the audit client should not be factored into the fee for the audit engagement.

However, it is important to recognize that the knowledge and understanding of the audit client gained by the firm when providing other services to an audit client typically provide the firm with insights into the operating, environmental, legal and financial characteristics, as well as various risk factors, associated with the audit client. This knowledge and understanding allows the audit firm to focus appropriate efforts and resources on the specific risks associated with the audit client, thereby enhancing audit quality. We do not believe that the utilization of this knowledge and experience in setting the fee for the audit engagement would be deemed to be influencing the audit fee.

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

Yes, we support this requirement in principle, but we have difficulty in seeing how the firm would be able to demonstrate this, particularly given the subjective nature of the word “influenced”. We recommend that it might be better to state that “The firm shall establish policies and procedures that require that the level of fees for the audit are set [independently and] without consideration of the provision by the firm or a network firm of services other than audit to the audit client”.

### **3. Does not support**

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

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

We are not able to support the proposition that an audit firm does not allow the level of the audit fee to be influenced by the provision of services other than audit to the audit client. We understand that this is an important effort to deal with a perception issue but, we understand that would be necessary more elements to conclude that independence could be impacted such as which fundamental principles are threatened, in what circumstances might the threats not be at an acceptable level, and which safeguards could be put in place to reduce the threats at an acceptable level. Without this information, it is not possible to identify an ethical benefit with the proposition that a threat to independence will be created. In addition, it would be important to have examples on how to grant conformity within this requirement. A discussion with audit client's governance could be used as an example. The provision of services other than audit may permit cost savings, as stated in the proposed paragraph 410.6 A2, and this is an important factor to be considered.

#### **Firms**

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

We agree with the principle that, when determining the audit fee, the auditor should not be influenced by the provision of other services to the audit client. However, we also consider that this concept is being given undue prominence in the proposal. The self-interest threat is already addressed in section R411.4 which prohibits the firm from evaluating or compensating a key audit partner based on that partner's success in selling non-assurance services to their audit client, and it is unclear why the Board believes this particular matter rises to the level of requiring a separate topic and a specific requirement. Rather, we suggest for this principle to be included in the application material in 410.5 A2, which discusses the factors that are relevant in setting the level of the audit fee.

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

We believe that the audit firm should focus on establishing an audit fee that supports a quality audit. Audit fees are determined using judgment and consideration of many factors, including overall client risk, staff capacity, audit timing, required specialists etc. It is unclear to us how the prohibition of the singular consideration of NAS services provided to the audit client in establishing the audit fee would reduce threats to independence or favorably impact audit quality. In that same regard, because of the myriad other factors that may influence audit fees and the overall level of judgment applied in establishing audit fees, we believe compliance with this requirement would be virtually impossible to effectively operationalize and evidence.

### **4. No comment**

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

- 1. Bangladesh Financial Reporting Council (BFRC)**
- 2. Committee of European Auditing Oversight Bodies (CEAOB)**
- 3. Capital Market Authority – Saudi Arabia (CMASA)**
- 4. Irish Auditing & Accounting Supervisory Authority (IAASA)**
- 6. International Forum of Independent Audit Regulators (IFIAR)**

**Preparers and Those Charged with Governance**

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

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

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

27. Institute for Accountancy Profession in Sweden (FAR)

46. New York State Society of CPAs (NYSSCPA)

47. Royal Netherlands Institute of Chartered Accountants (NBA)

**Others**

62. US Center for Audit Quality (CAQ)

64. Porus Pavri (PP)