

ED Question 5

Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- (a) Charged by both the firm and network firms to the audit client; and
- (b) Delivered to related entities of 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 comments

1. Support with minor amendments

Regulators and Oversight Authorities, Including MG members

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

Yes. NASBA supports guidance that includes consideration of fees for services other than audit charged by both the firm and network firm and delivered to related entities of the audit client.

Public Sector Organizations

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

We support the guidance in paragraph 410.10 A1, although we can find no reference to "services other than audit delivered to related entities of the audit client".

12. Auditor General of South-Africa (AGSA)

Yes, we support the guidance.

13. United States Government Accountability Office (GAO)

We support the guidance that the level of the threat might be affected when a large proportion of fees that the firm or network firms charge to an audit client is generated by providing services other than audit to the client. We agree that the IESBA should take a principle-based approach and allow firms to evaluate the level of threat created by the proportion of fees for services rather than setting a fee cap or using a threshold to trigger a reevaluation of threats to independence. We also support the factors listed in paragraph 410.10 A2 that are relevant to evaluating the level of such threats. While we agree with the safeguard listed in paragraph 410.10 A3, we encourage the IESBA to provide additional examples of safeguards that would address the independence threats. We believe that additional safeguards will help firms implement the Code more effectively.

Independent National Standard Setters

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

APESB is supportive of the guidance in proposed paragraph 410.10 A1.

APESB believes the IESBA could also provide additional guidance on another situation where a significant portion of fees relates to multiple audit fees referred from one source. This scenario prompted the audit regulator in Australia to request the APESB to include strengthened provisions in the Australian Code

(APES 110) to prevent this situation occurring in Australia. In particular, the regulator was concerned about the practices they saw in relation to the accounting and auditing engagements for Self-Managed Super Funds (SMSFs). The regulator noted that some SMSF auditors were reliant on one or two sources for referrals of SMSF audit engagements and believed this caused a significant threat to the independence of that auditor (refer paragraphs AUST R410.3.1 & AUST 410.3.1A1 of APES 110).

We encourage the IESBA to consider whether this matter affects other jurisdictions and should, therefore, be addressed in the IESBA Code.

Professional Accountancy Organizations (PAO's)

21. Botswana Institute of Chartered Accountants (BICA)

Despite varying services that the firm provides to the client, there is one relationship and if not managed this may pose self-interest threat. It is therefore appropriate that when a firm considers its proportion of fees, it includes both audit and non-audit services.

The firm is related to its fellow firms in the network as much as one entity is related to other related entities, as such, it is appropriate to include fees between all parties.

24. CPA Australia (CPAA)

CPA Australia supports the guidance provided in 410.10 A1 as it is principles-based and consistent with Proposed Revisions to the NAS Provisions of the Code at R600.10. CPA Australia suggests that, unless the IESBA intends for the listed factors at 410.10 A2 to be exhaustive, the first sentence at 410.10 A2 should indicate that the listed factors are relevant, but that relevant factors may not be limited to just those provided in the bulleted list.

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

We are supportive of the guidance as proposed in paragraph 410.10 A1. We did receive some feedback that possible implementation challenges in complying in an international context may arise if systems and processes do not already exist or if they are not equipped to capture fees for services other than audit charged by network firms for all audit clients.

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

We support this requirement.

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

We support the guidance which enables the firm to have a complete picture of the client's significance and threats to independence for the firm and its network firms.

41. Instituto dos Auditores Independentes do Brasil (Ibracon)

We agree that this might be perceived by public interest as a potential independence issue and the factors proposed to evaluate the level of threats related to the proportion of fees for services other than audit are appropriated. Additionally, we understand that the financial dependency for the entire audit firm should be correlated on this topic. Despite the factors provided, examples of safeguards would be appreciated in order to help addressing such situations, including in what circumstances the threats might be at an acceptable level.

29. Inter-American Accounting Association (IAA)

Yes, we support. With the same argument as our comment to numeral 4, above, the relation of professional audit fees of financial statements cannot and should not be linked to any condition other than services, consequently, it would distort the amount of audit fees its self:

- a) Audit fees, both by the firm and by network firms, are charged to the audit client. Furthermore, this would damage the fundamental ethical principle of "Integrity", in addition to objectivity.
- b) A similar case would arise if it were charged to related entities of the audit client that would not even receive the work.

31. Institute of Chartered Accountants of Bangladesh (ICAB)

Yes, we support the IESBA's approach to the revisions in proposed paragraph 410.10 A1 which includes the guidance on determination of the proportion of fees for services other than audit charged by both the firm and network firms to the audit client and/or delivered to related entities of the audit client. We have concern about the determination of the proportion of fees charged for services other than audit. We believe that having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work might be a safeguard to address such self-interest or intimidation threats.

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

Yes: this follows logically from the approach to independence followed in Part 4A of the Code. However it needs to be recognised that anything that involves firms having to assess what their networks are doing, and the related entities of the entities they audit, is going to require a significant logistical effort. A common-sense approach to application is therefore needed.

33. Institute of Chartered Accountants Ghana (ICAG)

Yes, we do agree. When a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, it creates an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non- audit relationship, which might create a threat to the auditor's objectivity.

For the avoidance of doubt, the IESBA intends that the related entity provision of the Code (paragraph R400.20) would apply in determining the fees for other services provided to the audit client, i.e., services provided to related entities of the audit client would be included.

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

This is fine with us

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

We agree with the substance of paragraph 410.10 A1, and that determination of the proportion of fees for services other than audit include consideration of fees for services other than audit: (a) Charged by both the firm and network firms to the audit client; and (b) Delivered to related entities of the audit client.

However, we believe that there could be more clarity in the application material.

For example, there are no specific provisions proposed for PIEs. In contrast, the UK FRC's Ethical Standard has very detailed provisions as to what should be included within the calculation for PIEs in terms of the firm and its networks; the client and its related parties; and the services other than audit.

One of the factors to consider in paragraph 410.10 A2 is "the ratio of fees for services other than audit to the audit fee". However, we suggest a distinction could be made between "non-audit services" and "audit related services" where audit related services, such as reporting required by law or regulation, which are closely related to the work performed in the audit, are generally considered to pose insignificant threats to auditor independence.

We also note that paragraph 44 of the Explanatory Memorandum states the following:

"44. For the avoidance of doubt, the IESBA intends that the related entity provision of the Code (paragraph R400.20) would apply in determining the fees for other services provided to the audit client, i.e., services provided to related entities of the audit client would be included."

Paragraph R400.20 states:

"As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence."

This definition then flows through into the provisions on fees for other services provided to the audit client, and fee dependency. However, for example, when considering paragraphs 410.10 A1 and 410.13 A1 in isolation, whilst the paragraphs may be logically correct in terms of capturing applicable related entities as per R400.20, we would highlight that it is not immediately clear to the user that applicable related entities are within scope.

To be aware of the extent to which entities are covered by the term “audit client” within these paragraphs, the user has to go through a convoluted process of referring to the definition of “audit client” within the Glossary and then to paragraph R400.20. We believe users may find this cumbersome, and there is therefore a risk that they may not conclude upon the full extent of related entities that are within scope.

We also note that the definition of “Audit Client” within the Glossary refers to paragraph R400.20, however the definition of “Audit Client” does not flag that there is an additional aspect to paragraph R400.20 as it also states: “When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.”

We would also add that where paragraphs are crucial to allow a full assessment of any proposed revision to the Code it would be helpful for the paragraph to be included in the Exposure Draft for ease of reference. In this particular instance, we would highlight paragraph R400.20 as an example.

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

ICPAU supports the guidance on the determination of the proportion of fees for services other than audit. We agree that the IESBA should take a principle-based approach and allow firms to evaluate the level of threat created by the proportion of fees for services rather than setting a fee cap as this would impair the known market dynamics in any business setting.

Whereas we support the factors relevant to evaluating the level of such threats as listed in paragraph 410.10 A2 and the safeguard listed in paragraph 410.10 A3, we propose that the IESBA provides additional examples of safeguards for example having separate engagement teams, etc. that would address the independence threats under paragraph 410.10 A3. This will be key in helping firms effectively implement the Code.

38. Mexican Institute of Public Accountants (IMCP)

Yes

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

We agree with the guidance proposed. Further guidance could be provided over what level of fees for services other than audit compared to the audit fees would be considered a higher threat.

41. Japanese Institute of Certified Public Accountants (JICPA)

We support the IESBA proposals.

From the perspective of addressing the threats created by fees paid by the audit client, we believe that fees paid by the client for services other than audit to other firms are not a factor in creating threats to independence. Accordingly, we believe it appropriate to limit the scope of the fees for services other than audit to the fees charged by the firm or network firms to the audit client and its related entities in determining the proportion of fees for services other than audit to audit fee.

42. Korean Institute of Certified Public Accountants (KICPA)

We support that the proportion of fees for services other than audit to audit fees is calculated based on fees for services other than audit provided by not only the firm but also network firms.

Among related entities, on the other hand, we oppose that fees for services other than audit paid to ones from overseas be included, since it would be difficult to access information on fees for services other than audit provided to audit clients’ related entities overseas by network firms.

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

We do agree with the proposed guidance as it can lead to improved transparency.

45. Malaysian Institute of Certified Public Accountants (MICPA)

We support the guidance in paragraph 410.10 A1.

47. Royal Netherlands Institute of Chartered Accountants (NBA)

In principle we do. The proposal justly recognizes that the self-interest threat caused by a network firm due to the performance of NAS, is not necessarily at an unacceptable level. We read paragraph 410.10 A1 in conjunction with paragraphs 410.10 A2 and 410. A3. We recognize all examples of factors that are relevant in evaluating the level of such threats. One of these factors mentions the relationship of the related entities to the audit client. We believe, for example, if a network firm performs NAS to an immaterial component of the audit client, it does not cause a threat of an unacceptable level. However we do have the following remark. It is unclear what exact related entities fall under the scope of this proposal. Only related entities over which the client has direct or indirect control, as in R410.23 and R410.25 (only applicable to PIEs)?

48. South African Institute of Chartered Accountants (SAICA)

SAICA supports the guidance, as the firms and network may be influenced by the level of income generated by non-audit work carried out. When significant revenue is being generated the client will be able to pressure the firm based on the level of fees paid to the firms, and even where a firm is objective the public perception may call into question this objectivity in the absence of adequate safeguards. If the client can significantly influence the related entities the same logic also applies.

It is however important to note the fact that “audit client” would include independent review clients. This might create a bigger threat to smaller firms, where they provide accounting services as well as performing the independent review.

Firms

51. BDO International Limited (BDO)

Yes, we support this new guidance.

52. Crowe Global (CROWE)

We support the presentation of the guidance on determination of the proportion of fees for services other than audit.

60. PricewaterhouseCoopers International Limited (PWC)

Yes, we support this guidance as a high proportion of NAS fees to audit fees has the potential to create a threat to independence, particularly in relation to independence in appearance. Accordingly, we agree that it is appropriate that the firm applies the conceptual framework approach to evaluate the level of any threat.

We believe that in practice, fees to the audit client and entities under its direct or indirect control should be considered for this purpose as it is the fees for services to such entities that have the potential to create threats in relation to a group audit. This is likely consistent with the thinking behind bullet 2 in 410.10 A2.

61. RSM International Limited (RSM)

Yes, we support this. The independence requirements for the provision of services other than audit apply to the network firms and to services provided to related entities of audit clients and so it seems appropriate that assessing threats in respect of fees should include those fees from services provided by network firms to audit clients and relevant related entities.

2. Support with reservations

Regulators and Oversight Authorities, Including MG members

5. Independent Regulatory Board for Auditors (IRBA)

Yes. We support the inclusion of the firm consideration of the proportion of fees for services other than audit to audit fee. There has been great interest in this from the public and regulators. Information around this assessment is not readily available, which makes it difficult to adequately evaluate whether there is a threat to independence.

We would have appreciated a requirement with regard to this proposal. In previous comments to the IESBA, we encouraged that a threshold approach be used for this particular threat.

It is reasonable to expect that the payee relationship would give rise to the workings of supply and demand from the specific client. However, while this may be true, the requirement to remain independent both in appearance and in mind remains the key requirement of the audit firm.

There is a strong concern that non-audit engagements will include assurance and related services. In South Africa, many regulated entities require the auditor to perform assurance services and agreed-upon procedure engagements. If these are the only services provided to the client, the audit firm will still be subjected to an evaluation. This information may be misunderstood and give the wrong impression when presented to TCWG.

We have noted that the factor included in 410.10 A2, bullet four, states "... the qualitative and quantitative significance of the client to the firm and the network". More thought should be given regarding whether this consideration is the same as that in bullet six of 410.4 A2.

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

Yes. However, the Code should define the permissible ratio of fees for services other than audit to the audit fee to ensure consistent application across audit firms.

Independent National Standard Setters

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

In its response to the IESBA's Exposure Draft, Proposed Revisions to the Non-Assurances Services Provisions of the Code, the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities. Acceptance of that recommendation would mean that the application of the guidance in paragraphs 410.10 A1 to 410.10 A3 would be limited to audit clients that are not public interest entities.

In relation to the guidance included in proposed paragraphs 410.10 A1 – 410.10 A3, paragraph 410.10 A2 identifies the ratio of fees for services other than audit to the audit fee as a factor that is relevant in evaluating the level of threats to the auditor's objectivity when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.

The consideration of the ratio of fees for services other than audit to audit fee is, in the NZAuASB's view, overly simplified as it does not take into account the broader category of "audit related services", i.e., those services provided by the auditor that require audit knowledge. These services may be required, for example, by a regulator, to be performed by the auditor, or it may not make sense for another practitioner to perform them. Combining assurance services that are compulsory with non- assurance services may provide a misleading picture of the total other services provided to the entity. As noted in our response to question 11, it is the NZAuASB's view that a more granular consideration of fees is necessary than simply distinguishing between fees for audit and fees for services other than audit. We recommend that in evaluating the level of the threat, the factors in paragraph 410.10 A2 consider the ratio of combined fees for audit and "audit-related services" to other services.

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 support the guidance in paragraph 410.10 A1. Where a large proportion of fees charged by a firm to an audited entity is generated from services other than audit this creates a range of threats to independence. However, we have concerns about how the monitoring of fees can be operationalised and whether the additional costs of analysing fees (and changes in fees) may outweigh any benefits. Firms and networks already confirm that they are independent, further scrutiny of fees will not change that.

18. Accountancy Europe (AE)

In principle, we support and acknowledge the well-intended objectives of the guidance proposed in this paragraph. However, the guidance does not seem to be fit-for-purpose as it lacks a detailed analysis of the different types of services provided and the various network structures.

There are certain non-audit services that are provided by the auditor due to the nature of the service. A non-audit service may be closely linked to the financial statements audit (e.g. interim reviews and issuance of comfort letters) or stakeholders may expect the auditor to provide the service as an objective and trusted party (e.g. other assurance services and regulatory reporting requirements). Most of these services require the respective service provider to also comply with independence standards or, based on local laws and regulations, have to be provided by the auditor anyway. The ED does neither clarify to what extent the fees for this type of services might cause a self-interest threat to the auditor's independence, nor why and how such fees would need to be considered with respect to the "proportion of fees for services other than audit to audit fee". Consequently, we are concerned that the guidance proposed does not sufficiently address the multitude of potential services that exists in practice.

We would like to note that the EU Audit Regulation has established a cap for the proportion of non-audit fees to audit fees and we observe issues in its implementation. Only the services required by legislation are excluded from the cap calculation and the calculation does not take into account the level of threats created by providing services other than audit. This results in a situation where even the services that do not raise any independence concern due to their nature are treated in the same way as other NAS.

In addition, we see inconsistencies among Member States in the understanding and the application of the cap. This demonstrates that IESBA's proposal has the potential to create similar issues that can even be exacerbated at the global level.

20. Association of the Italian Audit Firms (ASSIREVI)

Assirevi agrees with the proposed provision under paragraph 410.10.A1. Such principle is consistent with the Italian legal system. It would be useful to clarify the scope of "related entities" to be considered. In Assirevi's view, only those entities which are actually controlled by the audited entity, or over which the latter can exercise a significant influence, should be considered. With regard to listed companies, Assirevi believes that (i) companies in which the listed company holds more than 20% of the share capital but is not able to exercise significant influence and (ii) the entities under common control with the listed company should be excluded. In fact, in those cases, the decision-making process connected to the assignment of non-audit engagements would not fall under the purview and/or the control of such listed company.

22. Chartered Accountants of Ireland (CAI)

While in general firms have safeguards in place to track fees for all services, requiring consideration of fees charged by the network may be more difficult in some networks. Additionally, any self-interest threat to independence arising from fees for other services to the network is usually very low as the network's arrangements do not routinely include profit sharing arrangements. However there may be a perception of a threat to independence where work is referred around a network.

We believe that the role of an "appropriate reviewer" discussed in 410.10 A3 requires further consideration. It is unclear who would perform such a review. It is also unclear as to the scope of this review and we would question whether they are in fact reviewing the quality of the audit work and whether the EQC review which is required where the public interest need is greatest does not fully address the threat. We do not agree that another category of reviewer is needed given that audit firms already have an ethics partner and requirements for quality control reviewer roles are already in place. Furthermore, the provision does not include recommendations for consequences if the fee is too high or too low.

23. Compagnie Nationale des Commissaires aux Comptes (CNCC)

Firstly, we note that it is the first time that the notion of the proportion of audit /non audit fees appears in the Code and that such guidance is not commanded by a requirement. It is therefore hanging.

Secondly, we consider that including all related entities is too wide. It should be limited to entities included in the scope of the consolidated financial statements. Services rendered to entities which are not in the scope of the consolidated financial statements could rarely threaten the Independence of the auditor.

In the series of bullet points of paragraph 410.10 A2:

- we disagree with the fourth bullet point, the significance of the client to the firm. This is an issue of fee dependency of the firm towards an audit client, not of the ability of the auditor to issue an independent opinion on an audit client because of the large proportion of other services provided by the firm or the network to that client.
- We agree with the third bullet point, the nature of the services.

Building on that last point of the nature of the services, we believe that in fact there are two questions on the issue of the proportion of audit vs non-audit services fees for an audit client:

- The question of whether there is a proportion of non-audit services fees above which there is a self-Interest threat to the auditor's objectivity that cannot be mitigated by safeguards
- The question of which services are part of the audit or related to the audit and which one are not. And amongst those that are not part or related to the audit which one are, because of their nature, creating a threat to the auditor's objectivity.

On the first question we do not believe that there is a proportion of non-audit fees above which the auditor's objectivity cannot be safeguarded. There can be a very significant acquisition one year on which the auditor provides acquisition due diligences services which fees represent twice the audit fees and nevertheless the auditor's objectivity is not impaired.

It is more the nature of the services provided which can cause a threat to objectivity. Audit related and other assurance services are by nature not creating a threat to objectivity. Services that create an advocacy threat are probably riskier.

Finally, we would like to highlight the fact that this entire question of the threat to the auditor's independence because of the provision of non-audit services is made more difficult where the audit engagement is short especially in the case of a one-year audit engagement. In France we have a six year's audit engagement which constitute a very strong safeguard to the auditor's Independence because it provides a relief against the possible client's pressure not to renew the auditor's engagement from one year to the other.

40. Institute of Singapore Chartered Accountants (ISCA)

ISCA EC formed a working group ("ISCA NAS WG") to deep-dive into the local concerns in applying NAS and fee-related provisions in ISCA's EP 100 Code of Professional Conduct and Ethics, and to recommend practices that are relevant and practical to strengthen auditor independence.

To consider inputs across all stakeholders, the ISCA NAS WG was formed, comprising representatives who are practitioners from accounting firms, those charged with governance ("TCWG"), professional accountants in business, academic community and members from regulatory bodies.

ISCA NAS WG received feedback indicating diversities in interpretations and practices in applying certain NAS and fee-related provisions in ISCA's EP 100 Code of Professional Conduct and Ethics. There was also no empirical evidence to ascertain what information is relevant to TCWG in assessing the independence of audit firms.

With this in mind, ISCA NAS WG conducted a survey of directors (who are Audit Committee members) to obtain views on matters concerning auditor independence when providing NAS to audit clients; and on certain ISCA NAS WG's recommendations to address NAS independence concerns. Based on the outcome of the survey, we put forth the following recommendations for IESBA's consideration:

- Confirmation by each network firm that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% of the network firm's revenue

94% of directors surveyed agreed that the above confirmation would mitigate any perceived or real independence threats (intimidation and undue influence threats). If the percentage exceeds 1% of the network firm's revenue, 94% of respondents agreed that the below is an appropriate safeguard:

- a confirmation from the audit firm that there is no undue influence from network firms on the audit firm for the execution of audit; or
- a confirmation from the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit.

Our survey also included questions on the appropriate threshold to trigger TCWG's review of the provision of NAS to the audit client. Majority of the directors [87% of the respondents] view that the computation of such threshold should only cover NAS fees earned by the audit firm and its network firms from services rendered to controlled/downstream entities of the audited entity, i.e. the audit client's downstream entities. This is consistent with the ED's requirement for the firm to communicate with TCWG of an audit client that is a public interest entity ("PIE"), the fees for services other than audit by the firm or a network firm to the client's downstream entities in paragraph R410.23.

Paragraph 410.10 A2 of the ED lists the ratio of fees for services other than audit to the audit fee as one of the factors relevant in evaluating the level of threats (self-interest threat, intimidation threat, threat to auditor's objectivity) to independence.

Paragraph 410.10 A1 states that the proportion of fees for services other than audit include fees for services other than audit charged by both the firm and the network firms to the audit client and related entities of the audit client.

We agree with IESBA that the exact ratio of fees for services other than audit to the audit fee would be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.

Accordingly, we recommend the following:

- a) to exclude NAS fees earned by network firms from audit client's parent and sister entities in the fee proportion computation in paragraph 410.10 A1. Only NAS fees earned by network firms from controlled/downstream entities of the audited entity should be included in the fee proportion computation; and
- b) to adopt the above-mentioned confirmation by each network firm as an alternative safeguard to mitigate any perceived or real independence threats (intimidation and undue influence threats).

Further detail is included in our comment on question 5.

(ii) Introducing the concept of "Audit-related services" and excluding it from the computation of the proportion of fees for services other than audit to audit fee

- Concept of "Audit-related services"

The scope of NAS under the extant Code might be too wide as it covers all services other than audit and review engagements. In the UK FRC Revised Ethical Standard 2019, "audit-related services" is defined as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

The ISCA NAS WG observed that in Singapore, audit engagement teams might undertake certain NAS as required by laws or regulations since they are best placed to perform certain NAS under legislation, regulations or contracts, given their knowledge of the audit client's system of internal controls and financial reporting process gained through the audit. Examples of such NAS include assurance services or agreed upon procedures engagements (i) related to specific financial line items or internal controls; (ii) for purposes of reporting compliance with industry specific regulations; and (iii) in connection with government grant schemes.

With reference to UK FRC Revised Ethical Standard 2019, such services would be considered as "audit-related services". Accordingly, the ISCA NAS WG proposes to introduce the concept of "audit-related services" for application in Singapore. This proposal is fully endorsed by the directors [100% of the respondents] we surveyed. Hence, we recommend that IESBA adopts the concept of "audit-related services" in the Code to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly

insignificant such that no safeguards are required. Scoping out “audit-related services” from the current definition of NAS would better reflect the essence of what NAS is.

- For computation, exclude “audit-related services” from formula

Taking into consideration the nature of “audit-related services”, a question on whether such “audit-related services” should be excluded from the formula to compute the ratio of fees for services other than audit to audit fees was included in the survey. The directors were supportive [97% of the respondents] of ISCA NAS WG’s proposals on “audit-related services”. More information is included in our comment on question 5.

- “Audit-related services” to be separately disclosed

We also believe that a separate category of “audit-related services” would better clarify the nature of services provided by the firm or its network firms to audit clients. This would better assist the public in their judgments and assessment about the firm’s independence. More information is included in our comment on question 12.

Accordingly, we recommend that IESBA:

- a) introduces and develops the concept of “audit-related services”;
- b) excludes “audit-related services” from the computation of the proportion of fees for services other than audit to audit fee to focus on identifying and evaluating the threats created by ‘genuine’ NAS; and
- c) requires “audit-related services” to be separately disclosed from other NAS.

Our comments to the specific questions in the ED are as follows:

Yes, we agree in theory that fee information on NAS provided by network firms (of the audit firm) to the related entities of the audit client (parent, penultimate parent, ultimate parent and sister entities of the audit client) should be included in the determination of the proportion of fees for NAS.

However, there is a risk that the cost of doing this analysis will outweigh the benefit. Furthermore, as mentioned in Question 1, the proposed ISQM 1 contains provisions that will provide significant safeguards against self-interest threat.

Accordingly, we recommend that IESBA excludes NAS fees earned by network firms from audit client’s parent and sister entities in the fee proportion computation. Only NAS fees earned by network firms from controlled/downstream entities of the audited entity should be included in the fee proportion computation.

We note that the proposed paragraph 410.10 A3 provides an example of a safeguard of “...having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work”. It is unclear who this “appropriate reviewer” would be.

We recommend an alternative safeguard (see below), which 94% of the directors (who are Audit Committee members) we surveyed, believe would mitigate any perceived or real independence threats (intimidation and undue influence threats). We view that any threats to independence would be clearly insignificant in situations where the NAS fees earned by each network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client is less than 1% of the relevant network firm’s revenue.

Alternative safeguard – Each network firm confirms to the audit firm, that the NAS fees earned by the network firm from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% (cumulative per annum) of the network firm’s revenue.

In the event that the above threshold exceeds 1%, 94% of the directors we surveyed agree that obtaining a confirmation from the audit firm/the audit firm’s ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit to TCWG would be an adequate safeguard.

“Audit-related services”

NAS under the extant Code would include any services other than audit and review engagement.

We recommend that IESBA develops the concept of “audit-related services” to reflect non-audit services carried out by the audit engagement team, whose work is closely related to the work performed in the audit, and the threats to auditor independence are clearly insignificant such that no safeguards are required. “Audit-related services” should then be excluded from the computation of the proportion of fees for services other than audit to audit fee.

100% of the directors surveyed agree that the concept of “audit-related services” as defined below should be developed for application in Singapore. 97% of the directors surveyed agree to exclude “audit-related services” from the fee proportion computation.

In our view, “audit-related services” are work that is (i) closely related to the work performed in the audit engagement; and (ii) usually carried out by audit engagement team members who are required to comply with the independence requirements.

We also note that the UK FRC Revised Ethical Standard 2019 defines “audit-related services” as non-audit services that are largely carried out by members of the audit engagement team, and where the work is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

37. Institute der Wirtschaftsprüfer (Germany) (IDW)

We are concerned with the proposed approach for several reasons. In our opinion, audit related services such as a review of an audit client’s interim financial statements or services that are so closely related to the audit that generally the auditor would be the most appropriate party to provide such services do pose a self-interest threat to an auditor’s independence. Indeed, it would be more appropriate to view audit-related services as a part of an auditor’s overall service since every auditor would likely be the appropriate service provider merely because of being the auditor. In our view all audit related services should be clearly distinguished from other non-audit services.

Those of our members who are subject to the so-called fee cap under the EU Audit Regulation report problems in practice. Following a similar approach internationally would inevitably lead to similar issues. The IESBA Code includes the following definitions:

“Network

A larger structure:

- a) That is aimed at co-operation; and
- b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm

A firm or entity that belongs to a network.”

We are not convinced that the services delivered by each and every network firm falling within this definition would impact the auditor’s independence of appearance, let alone independence in mind. Any impact would vary according to the specific network arrangements as well as the relative proportion of the “large proportion” mentioned in proposed paragraph 410.10 A1 between the audit firm and the network firm(s). Should IESBA decide to retain the proposed reference to fees charged by network firm(s) it should decide and explain which of the factors (or combination of factors) in the definition cited above IESBA believes would impact auditor independence. We agree that the factor “clearly aimed at profit or cost sharing or shares common ownership” might indeed impact auditor independence, whereas we do not believe, for example, that the use of a common brand-name alone would do so.

Indeed, it may be difficult for an audit firm to obtain the necessary information from a widespread network that does not have common quality control policies and procedures. If the audit firm is unable to obtain

information as to the level of threat, then such threat, if any, can only be in vague terms. In our view the perceptions of any such threat may often outweigh the actual threat.

Furthermore, when a fee is charged to related entities of an audit client any impact becomes more remote. To the extent that the auditor is unaware of any fees charged to related entities of the audit client there clearly can be no self-interest threat. The IESBA should weigh up the cost-benefit of including fees for services delivered to related entities, as we suggest no real threat would be created unless they are clearly known and to be of a certain magnitude.

44. Malaysian Institute of Accountants (MIA)

We support that the level of non-audit fees may give rise to self-interest threats.

However, compliance with such requirements would likely require the implementation of management information systems ('MIS') at the network level for the assessment of fees charged by network firms. Networks that do not currently have such systems would face practical challenges in complying with this requirement without incurring substantial costs of developing and maintaining these MIS. The MIS must be able to identify all services delivered to related entities of the audit client, which implies a certain level of sophistication that drives associated design and implementation costs. It remains unclear whether the benefits of such implementation would be significant to maintain audit independence.

SMPs, especially start-ups, face increasing likelihood that they would have a large proportion of fees charged to an audit client generated by providing non-audit services ('NAS'). This could inadvertently raise the barriers of entry into the profession and promulgate oligopolistic behaviour within the market.

We also seek clarification from the IESBA on the extent of the related entities included in the calculation of the ratio of fees and the level of ratio of fees that would trigger an issue of auditor's independence. In Malaysia, there are many government-linked companies for which the significant shareholder is the Malaysian Government itself. Accordingly, it would be very challenging to determine the proportions proposed in relation to related entities.

49. Wirtschaftsprüferkammer (Germany) (WPK)

In principle we acknowledge the objective of the proposed guidance. However, the guidance as proposed seems not fit for purpose, since it lacks clarity. It remains unclear, for instance, how the assessment has to be made and on what level.

Certain non-audit services are provided by the auditor due to the nature of the service. A non-audit service may be closely linked to the financial statements audit (e.g. interim reviews and issuance of comfort letters) or the stakeholders may expect the auditor to provide the service as an objective and trusted party (e.g. other assurance services and regulatory reporting requirements). In these cases, these fees do not create a self-interest threat to auditor's independence.

Please note that the EU Audit Regulation established a cap for the proportion of non-audit fees to audit fees. Services required by national legislation are excluded from cap calculations. Understanding and application of this cap requirement lead to inconsistencies among Member States. We fear that the IESBA proposal might create similar issues.

Firms

50. Baker Tilly International (BKTi)

We are supportive of the guidance on determination of the proportion of fees for services other than audit set out in 410.10A1 and the relevant factors in 410.10 A2.

However, we are concerned that there may be an over-emphasis of the importance and impact of fees at the network level. For most networks there is no profit-sharing arrangement between independent members of the network, and the extent of centralisation of network activities varies considerably. So, for example, in a situation where two firms within a network have separate operating structures and compensation arrangements and are providing services to the same non-PIE client, it is entirely possible that non-audit services are likely to be of higher value than the audit fee. However, in this example, the firms do not share profits and therefore it is not clear why there would be a self-interest or intimidation threat to the firm

performing the audit. Is it the intention of these provision to suggest that such a threat exists when, in reality, it may not?

In addition, there is no definition of what “large proportion of fees” is in 410.10 A1. Whilst we understand that it may be difficult to set a global definition, given the existence of local jurisdictional thresholds, it may be difficult to achieve consistent application across firms and networks.

53. Deloitte Touch Tohmatsu Limited (DTTL)

We agree with the Board’s conclusion that the Code should not establish fee caps, and we support a principles-based approach for requiring the audit firm to evaluate threats to the fundamental principles that might be created by the proportion of total fees charged for other services provided during the engagement period.

We believe it is important to recognize that there are many services other than the audit which are required to be undertaken by the audit firm or are consistent with the role of the auditor, such as the provision of comfort letters, other review and assurance services, regulatory reports required to be performed by the audit firm, etc. While such fees could contribute to a higher proportion of fees that are not from the audit, these fees should not be considered to form part of the proportion of fees that create threats to the independence of the audit firm especially when some of the services are assurance services that also require independence.

We suggest for the Board to harmonize to the extent possible the calculations being required to be performed and reported in various different sections of this ED. This section should require the consideration of the same information as that which is required under the fee dependency section – the fees charged by the firm expressing the opinion on the financial statements of the client (not the network firms) for services provided to the audit client. Similarly, the threats created by a large proportion of fees from non-audit services would reasonably be thought to bear on the independence of the firm expressing the opinion on the audit, not the entire network. In other words, given this ratio focuses on the level of threat created for the firm signing the opinion, the analysis should be limited to those factors that could reasonably influence the auditor signing the opinion. This focus on the firm signing the opinion is also consistent with the provisions of the EU Audit Legislation when considering the level of fees from non-assurance services compared to the audit.

55. Grant Thornton International Limited (GTIL)

GTIL supports the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1.

However, we believe a more holistic approach would be for the proposal to focus on non- assurance fees charged by the firm expressing an opinion on the financial statements, and only extend to other firms in the professional accountant’s network that provide non-assurance services to the audit client, if that firm also participates in the audit of the audit client.

Additionally, we believe the guidance should only extend to related entities included in the consolidated financial statements that the firm expresses an opinion on. We believe this approach is consistent with the proposal in R410.25 (b), Public Disclosure of Fee Information.

We base our recommendations on the premise that independence in fact when performing non-assurance services is determined by the scope of services being performed, and whether the scope of services has compromised the auditor’s independence and objectivity. There is no correlation to level of fees being charged for non-assurance services in the assessment of independence. Level of fees charged by the auditor for non-assurance services is more of a demonstration of independence in appearance. Therefore, we believe based on this perception, only firms performing audit services for the audit client in the network should be subject to this requirement.

56. KPMG IFRG Limited (KPMG)

If the Board considers the fee levels of other legally separate firms within a network which are not involved in the audit of the audit client to impact the independence of the principal auditor, we suggest that application material to explain the rationale and linkage be added to the Code.

The last sentence of 410.10 A1 references “a perception that the firm or network firm focuses on the non-audit relationship,” which would seem to be akin to the reasonable and informed third party test. The last part of that sentence then states “which might create a threat to the auditor’s objectivity.” We do not agree that a perception would create a threat to the fundamental principles. The reasonable and informed third party test is a consideration made by the professional accountant or the firm, not the cause of a threat.

We suggest that the following be included as a factor at 410.10 A2: “The nature of the client, for example whether the client is a public interest entity.”

410.10 A3 - The first bulleted point references an appropriate reviewer “who was not involved in the audit engagement.” We recommend using language consistent with the auditing standards, such as “who is not part of the engagement team,” to clarify the meaning of the safeguard.

57. Mazars Group (MAZARS)

We agree with (a). As far as (b) is concerned, we think you should consider restricting the related entities to those entities which are included in the consolidated financial statements of the audit client. Services provided to related entities which are not included in the consolidated financial statements appear to pose a less direct threat to the auditor’s independence.

58. Moore Global Network Limited (MOORE)

We would support this change at an individual firm level. We would also broadly support the proposal for “network firms” in relation to PIE audits.

We do not support this at a “network level” if the implication of the reference to “network firm” is that the totality of non-audit fees require to be considered for each audit client of each network firm.

In most mid-tier and smaller networks, where the firms operate as independent firms with a low degree of centralised control, each firm operates independently of the other firms in the network, meaning that operational decisions are conducted at a firm level, the commercial decisions to take on clients, including fee setting and fee issues, sit with each firm individually. There is no profit sharing or fee sharing between these firms and each business operates entirely independently from the other. There is therefore no merit in considering the total network non-audit fees v total network audit fees for the audit client in this context and to do so would be a redundant safeguard against a threat that is minimal or non-existent.

Extending the scope of considerations to gather fee data on non-audit services for all clients would result in network conflict checking systems requiring to be significantly re-engineered, which would be costly and take significant time to introduce, which would be disproportionate to the benefit obtained and would be disproportionately onerous for mid-tier and smaller networks. This would also have a significant knock-on impact on the implementation time-period required in order to make such software platform changes,

The only situation where we consider there should be “read-across” between firms is in relation to shared audit contracts within firms in the network, given that this then results in inter-dependence.

As alternatives to the measures proposed in the draft, IESBA may wish to consider either:

- differentiating between networks where there is financial inter-dependence and those where there is not; or
- taking a threats and safeguards approach i.e. where there is inter-dependence (such as in a joint contract situation or where there is other interdependencies such as in more integrated networks) appropriate action is required to monitor fee levels “cross-firm” and implement safeguards, but if there are no interdependence risks, that no cross-firm monitoring or actions are required.

Others

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

In general, the SMPC is supportive of this requirement. It gives a more complete picture of the client’s significance to the firm and its network. However, we do not believe that all services delivered by network firms will impact the auditor’s independence in fact. There will also be practical challenges, e.g., for firms to

obtain the necessary information. Indeed, we struggle to understand the potential for fees to related entities to affect auditor independence, since generally the auditor would not have such information.

On this basis, the SMPC suggests IESBA to carefully consider the cost/benefit of including those services delivered to related entities that are of lower significance (in terms of fees or nature).

3. Does not support

Regulators and Oversight Authorities, Including MG members

2. Committee of European Auditing Oversight Bodies (CEAOB)

The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a "large proportion of fees". This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.

We understand that the scope of the Code is different from the EU Regulation, including the fees charged by the network firms, but not taking into account, for non-listed PIEs, the fees charged to the audit client's parent undertaking¹. In fact, in the EU regulation this calculation is performed at the level of the audit firm or the statutory auditor in relation to its audit client and we believe that it is the right level to address the self-interest threat in order to set a threshold beyond which the provision of NAS is not allowed. We invite the Board to reconsider ED paragraph 410.10.A1 to clarify the scope and consequences of the evaluation.

4. Irish Auditing & Accounting Supervisory Authority (IAASA)

The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a "large proportion of fees". This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.

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6. International Forum of Independent Audit Regulators (IFIAR)

Another factor that could be considered in paragraph 410.10.A2 is the ratio of fees for services other than audit to audit fees charged over a number of years.

We question the argument in the explanatory memorandum (paragraph 41) that audit practitioners might not be able to determine the exact ratio of fees for services other than audit to the audit fee in a timely manner. Given the disclosure requirements, this should be even less of an issue for firms that provide professional services to PIEs. In order to foster public trust in the audit profession we therefore suggest including a threshold not as a limit to further provision of NAS but as a trigger for a re-evaluation of the threats to independence. The percentage could be determined by feedback from stakeholders or existent restrictions introduced by jurisdictions if no empirical evidence is available. Availability and calculation of fee numbers should not present a challenge for firms given their expected internal control processes as well as their experience in providing professional services in more complex situations.

10. United Kingdom Financial Reporting Council (UKFRC)

We agree that when identifying and assessing threats to independence it is necessary to take account of fees for non-audit services charged by network firms and also non-audit services delivered by the firm and its network to related entities of the audit client. In our ethical standard we apply a cap on fees for non-audit

services that can be provided by a firm and its network to a public interest entity and its controlled undertakings. For the firm alone, the cap also applies in relation to non-audit services provided to a parent undertaking.

We note IESBA's explanation for not proposing fee caps in the Code, although we would welcome more discussion as to why the views of stakeholders other than regulators carry more weight. The statement that "the Code is a body of standards intended for global application" does not provide a satisfactory reason for not applying a cap, especially if IESBA actually considered a cap to be appropriate to address the general concerns that high levels of fees for non-audit services compared to the audit fee are an actual and perceived threat to integrity, objectivity and independence. Of course, regulators may have the ability to impose more stringent requirements in their own jurisdictions, but that undermines the perceived worth of the Code and makes global harmonisation more difficult

Notwithstanding IESBA's view that it is not appropriate for the Code to establish a cap, paragraphs 410.10.A1 and 410.10.A2 could give more robust guidance to assist the evaluation of threats. For example, the first factor listed in A2 is simply "the ratio. fees for services other than audit to the audit fee". We recommend stronger guidance that when the ratio is more than 1:1 the firm give specific consideration to whether the threats to independence of the firm, or any member of its network where relevant, are at a level where independence is not compromised or, if necessary, put in place appropriate safeguards such that independence is not compromised, which may include the firm or member of its network not providing the non-audit service. This would not establish a cap but would help ensure appropriate attention is given to the threats.

We are concerned that the guidance in paragraph 410.10.A3 that a safeguard might be a review of the audit work by a reviewer who was not involved in the audit or non-audit service could be seen as an easy option that could lead to threats not being appropriately evaluated. Such review is unlikely to address the concerns of stakeholders, particularly when the reviewer comes from the same firm. If this guidance is retained, it needs to make clear that such an assessment should be considered from the perspective of an objective, reasonable and informed third party.

Firms

54. Ernst & Young Global Limited (EY)

We do not support paragraph 410.10.A1 as it is drafted because it presupposes that a self-review threat already exists because the audit fees were negotiated with and paid by the audit client. As noted in our response to question one above, we do not agree with this assumption.

In our view, the Code should take a principles-based approach using the extant framework and provide the flexibility for firms to evaluate the threats created by the proportion of the fees for the other services delivered throughout the period during which independence is required. The proportion of fees as a standalone measure is not an appropriate measure, but rather the totality of the various factors involved in delivering the service, including the complexity of the client and services, need to be considered.

Consistent with our prior comments, the IESBA should consider acknowledging standards such as the existing standards on quality control systems, proposed ISQM 1 and ISA 220. These standards deal with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. Specifically, ISA 220 addresses, where applicable, the responsibilities of the engagement quality control reviewer which is a significant safeguard to such self-interest and intimidation threats.

The proposed changes do not provide any guidance on what will constitute a "large proportion", and do not adequately explain what fees should be included in the numerator and denominator when computing the proportion. For example, would the audit fee only include the fees for the audit of the financial statement that are being reported upon, or would this also include the fees for statutory audits of subsidiaries in various jurisdictions, quarterly reviews, etc.? In addition, application material would need to be provided to address questions on how the fees for services other than audit, but for which the audit is integral to the other service, or the service can only be reasonably provided by the auditor, should be factored in to the evaluation – for example, comfort letters, consents, certain services required for regulatory filings and other assurance services.

Application material should make it clear that the fees for other services only relate to the audit client and related entities over which the audit client has direct or indirect control.

Finally, consideration should be given to potential difficulties some networks may face where such networks do not have common accounting or financial reporting systems such that global fees for a client may not be readily available.

4. No comment

Regulators and Oversight Authorities, Including MG members

- 1. Bangladesh Financial Reporting Council (BFRC)**
- 3. Capital Market Authority – Saudi Arabia (CMASA)**
- 7. International Organization of Securities Commissions (IOSCO)**

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)**

Others

- 62. US Center for Audit Quality (CAQ)**
- 64. Porus Pavri (PP)**