

### ED Question 8

Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

The respondents' responses are divided into four groups:

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

## 1. Support with minor amendments

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

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

NASBA believes that firms should evaluate threats to independence arising from fee dependency at the firm, office and individual partner levels and apply appropriate safeguards to reduce threats to an acceptable level. We do support applying an engagement quality review as outlined in the proposal.

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

Yes.

### **Public Sector Organizations**

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

The proposed action in paragraph R410.17 appear to be reasonable.

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

The proposal supported, however more guidance could be included on what constitutes the total fees.

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

We support the proposed safeguard in paragraph R410.17. We agree that having a professional accountant who is not a member of the firm review the audit work prior to the issuance of the audit opinion could reduce the threats created by fee dependency. We also agree that a post-issuance review would not be an effective safeguard. However, as noted previously, we suggest that the IESBA provide additional examples of safeguards that could reduce the threats.

### **Independent National Standard Setters**

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

APESB is supportive of the proposed action to undertake a pre-issuance review as a safeguard for fee dependency on a PIE audit client. However, we are concerned with the drafting of this paragraph. In particular, the phrase '...might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.'

The proposed drafting does not address what should happen if this safeguard is not able to reduce the threats to an acceptable level. Is the auditor able to just continue providing the services with no other action needed? Is it only at the point where there have been 5 consecutive years of fee dependency that action must be taken so that the firm ceases to be the auditor under the proposed paragraph R410.19?

APESB notes that the extant paragraph R410.5 is proposed to be deleted. This paragraph effectively required the performance of a pre-issuance review if a post-issuance review would not reduce threats to an acceptable level. The removal of this paragraph and the current drafting of the proposed paragraph R410.17 appear to leave a gap in which firms may decide a pre-issuance review is not a safeguard, and therefore, take no further action in relation to the issue of fee dependency.

APESB has considered whether the re-evaluation of threats as required in the proposed paragraph R410.4 would address this issue. However, the proposals in the Fees Exposure Draft do not clearly state what a firm or auditor should do in the case where threats are not at an acceptable level, at either the initial evaluation or the re-evaluation of threats to the fundamental principles caused by fees.

As noted in our response to questions 2 and 7 above, APESB is of the view this matter could be addressed by the IESBA through the inclusion of a new requirements paragraph (located just after proposed paragraph R410.4) where firms are required to decline or discontinue an engagement if threats related to fees cannot be eliminated or reduced to an acceptable level.

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

The NZAuASB supports the proposed action to reduce the threats created by fee dependency to an acceptable level in the case of an audit client that is a public interest entity.

The proposal does not address circumstances where an engagement quality review performed by a professional accountant who is not a member of the firm is determined not to be a safeguard to reduce threats to an acceptable level. In this regard, the NZAuASB believes that the requirement could be clearer, i.e., require an engagement quality review to be performed or, if this is not possible, require withdrawal from the engagement.

#### **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 are generally supportive of the proposed safeguard to reduce the threat created by fee dependency in the case of a PIE to an acceptable level. However, some members expressed concern that the proposed action may be impractical for some markets due to the limited availability of professional accountants to perform a pre-issuance review. Furthermore, some local regulators discourage the involvement of third parties in the audit of PIEs and the expression of the audit opinion.

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

Assirevi believes that the actions proposed in paragraph R410.17 are appropriate in order to reduce the threats created by fee dependency to an acceptable level, especially if such actions are matched with those set out in paragraphs R410.20 and R.410.24, which provide that both the specific circumstances and the related safeguards should be communicated to those charged with governance (hereinafter, "TCWG").

Assirevi also draws the attention of the IESBA to the fact that the proposed revision should be coordinated with ISA 260 to avoid any potential overlap between the information flows required by the two sets of standards.

Moreover, it would also be useful to specify that the professional accountant in charge of the engagement quality review "who is not a member of the firm" may be a partner of another member firm belonging to the same network of the auditor.

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

We support the proposal since more stringent measures are necessary for a PIE.

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

We generally support the proposed action in paragraph R410.17 but received similar feedback as noted above in respect of R410.14 including that "total fees from an audit client" should be clarified for the reader as to whether total fees include those received by network firms in addition to the firm. The use of "the total fees received by the firm from an audit client" or something similar would make the intent clearer in

R410.17. Additionally, we received feedback that the requirement should be strengthened and more directly stated to carry out the action, provide additional guidance as to other types of safeguards that might be applicable and explain the result if the threats are not reduced to an acceptable level with the proposed action.

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

We support the Board's adoption of a threshold for firms to address threats created by fee dependency on a PIE audit client and understand the use of professional accountant who is not a member of the firm can address the heightened state of public interest expected from clients that are PIEs. However, local stakeholders indicate their concern that less sizable firms may be discouraged to start accepting PIE audit clients due to the threshold (15% of total fee) is not very high. PIE audit clients are likely to engage more sizable firms so that they not need have to bear the costly pre-issuance reviews indirectly. Ultimately, it will limit the growth of less sizable firms.

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

We support that having an engagement quality review performed by an independent professional of the audit team is an important safeguard to maintain the objectivity of the audit performed. However, it is not clear the rationale for considering two consecutive years or the 15% threshold. We suggest that more explanation on those circumstances could be included in the Code in order to demonstrate which fundamental principle is being compromised.

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

Yes, we support. We understand that as a safeguard measure to reduce to an acceptable level the quality review of the work performed by a professional accountant who is not a member of the firm and before the latter issues its opinion on the financial statements corresponding to the second year if its total fees of an audit client that is a public interest entity in each of the two consecutive years total more than 15% of their total fees.

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

Yes, though we think a regular period might better be considered to be three years rather than two: there can be many legitimate reasons why significant ad-hoc fees might arise in two successive years without being indicative of a regular occurrence.

That noted, it might be appropriate for the requirement to alert those charged with governance (TCWG), in R410.24, to be retained at two years. This would alert TCWG about a potential issue with audit reappointments in advance and allow them to request a review if the auditor has determined that it is not necessary, but they disagree.

We note that the engagement quality review safeguard referred to excludes the possibility of a review from someone inside the firm. We believe that it might assist some smaller firms without compromising independence if a review were considered acceptable by someone from within the firm if the degree of fee dependence was not excessive and that individual's remuneration were not dependent significantly on the same profit source as is contributed to by the fees from the audited entity.

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

Yes, we support the proposal. We support the view that prior to the audit opinion being issued on the second year's financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review"). This might be a safeguard to reduce the threats to an acceptable level.

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

We understand that the existing choice to Accountant to go for a Pre-Issuance Review or Post Issuance Review is proposed to be replaced with the mandatory Pre Issuance Review.

We agree with this proposal

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

Yes – similar to our response to Question 6 - in principle we support the proposal in paragraph R410.17. We note the FRC's Ethical Standard states:

“4.23 Where it is expected that the total fees for services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 10% of the annual fee income of the firm or, where profits are not shared on a firmwide basis, of the part of the firm by reference to which the engagement partner's profit share is calculated, the firm shall not act as the provider of the engagement for that entity and shall either resign or not stand for reappointment, as appropriate.

4.27 Where it is expected that the total fees for services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 5% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 10%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity, including the audit committee where there is one, and discusses with both the threat to integrity, objectivity and independence of the firm and covered persons and whether safeguards need to be applied to eliminate or reduce the threat to a level where independence would not be compromised.

4.30 Such safeguards might include:

- taking steps to reduce the other work to be undertaken and therefore the fees earned from the entity;
- applying independent internal quality control reviews.”

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

ICPAU supports the proposed action to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client. However, our observations as in question 7 above refer.

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

Yes

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

The proposed course of action is option 'engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("preissuance review") might be a safeguard to reduce the threats to an acceptable level' (emphasis added). There is not requirement per se. This paragraph needs to be clarified as to the actions that need to be taken.

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

We support the IESBA proposal.

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

We do support the proposed actions.

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

We support for the proposed action in paragraph R410.17.

However, we seek clarification on the meaning of pre-issuance review and its difference from an engagement quality review that is already in place for a PIE audit.

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

SAICA supports the proposal, however the reference needs to be updated to ensure that the professional accountant outside of the firm is independent i.e. not a related party.

## **Firms**

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

We agree with this proposed action.

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

We support the proposed action that an engagement quality review performed by a professional who is not a member of the firm expressing the opinion on the financial statements (but could be a member of a network firm) might be a safeguard in the circumstances.

R410.19 refers to the circumstances described in R410.17 continuing for five consecutive years, as a reason for requiring the firm to cease being the audit firm. It is unclear whether the existence of a joint audit referred to in R410.18 is an exception to R410.19.

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

We support the proposed action in paragraph R410.17 to reduce the threats created by fee dependence to an acceptable level in the case of a PIE audit client, but suggest the following circumstance be addressed.

Paragraph 52 of the Explanatory Memorandum makes it clear that the IESBA's intent is that the pre-issuance review required in proposed paragraph R410.17 is the equivalent of an engagement quality review as defined in proposed ISQM 2, Engagement Quality Reviews. As currently drafted, proposed paragraph R410.17 focuses on an engagement quality review being performed and not a pre-issuance review. In some jurisdictions there are requirements that the engagement quality review be performed by a locally licensed professional accountant. In this circumstance, we propose that the requirement in proposed paragraph R410.17 is changed as follows:

“ When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15 % of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a pre-issuance review equivalent to that of an engagement quality review performed by a professional accountant who is not a member of the firm....” .

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

GTIL supports the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold.

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

We do not take exception to the proposed action in paragraph R410.17.

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

We support that for PIE audits a pre-issuance review is the only appropriate course of action and that a post issuance review does not adequately safeguard against the threat. However, there is a risk in only setting the requirement from year 2 that this could result in a first-year audit being conducted with high fee dependence levels without any safeguards.

In relation to joint audits, again, we would be concerned that this should not apply in cases where the firm which is exceeding the fee % is the only firm signing the audit report and that the conditions may require to be limited to where both parties sign the opinion.

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

Yes, we support this provision.

However, in terms of the relevant fees we believe that the provision lacks clarity. We assume this is intended to refer to all fees received by the firm from the client or a related entity, and excludes fees received by other firms in the Network (or indeed other component auditors outside the Network) whether for audit or for other services. This could be clearer.

## **2. Support with reservations**

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

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

ED paragraph R410.17 applies to audit clients that are PIEs and pursues the same goal as article 4 (3) of the EU Regulation N°537/2014, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Europe and could lead to confusion for auditors when deciding which provisions should be applied.

We hereafter list the four main differences we have identified between the Code and the EU Regulation, on which we ask the Board to further align the ED.

- The reference period is different, two years for the Code and three years for the EU Regulation.
- The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the Audit regulation for the calculation of the threshold only applies to the PIE itself and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation's scope but not the other and vice versa.
- In the Code, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard.
- The Code requires only one potential safeguard, being the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the review, where appropriate.

ED paragraph R410.18 addresses the joint audit situation and we do not believe that a joint audit can replace an engagement quality review.

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

Paragraph R410.17 of the exposure draft ('ED') applies to audit clients that are PIEs and pursues the same goal as article 4(3) of the EU Regulation, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Ireland and Europe and could lead to confusion for auditors when deciding which provisions should be applied.

We hereafter list the four main differences we have identified between the Code and the EU Regulation, on which we ask the Board to further align the ED.

- The reference period is different, two years for the Code and three years for the EU Regulation.
- The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the EU Regulation for the calculation of the threshold only applies to the PIE itself and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation's scope but not the other and vice versa.
- In the ED, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard.
- The ED requires only one potential safeguard i.e. the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the engagement quality review, where appropriate.

ED paragraph R410.18 addresses the joint audit situation and we do not believe that a joint audit can replace an engagement quality review.

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

Yes, with concerns about how it can be improved. While we agree with the proposed revisions and the tightening of R410.17, we note that this paragraph has been subject to much abuse in the past, and the clarified wording does make this more understandable.

We would appreciate a further consideration of the wording “are likely to represent” as it allows for an unreasonable level of subjectivity.

However, the safeguard of an engagement quality review, and the possibility of the reviewer from within the network firm, does not seem like a sufficiently robust safeguard to be applied to a PIE client, compared to the threat posed by the fee dependency.

We note that R410.18 does require an engagement quality reviewer similar to the requirement of R410.16. We would appreciate if this additional review consideration is added.

A similar analysis has been included in the IRBA Feedback Report: Audit Quality Indicators Report 2019. It is interesting to note the analysis for South Africa on pages 7-8.

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

R410.17 provides for one potential safeguard. However, if this is deemed unsuitable, no further actions are required by the firm. We believe that, if the firm determines that this safeguard is not appropriate, they should be required to develop a suitable safeguard to address the threat.

Similarly, “a professional accountant, who is not a member of the firm expressing the opinion on the financial statements”, shall conduct the engagement quality review in R410.17 and the reviews described in R410.14. We encourage the Board to add specificity to the description recognizing that a member of a network firm is eligible as a reviewer.

However, we do not believe it would be a sufficient safeguard alone to have a professional accountant, who is not a member of the firm review the work. Accordingly, we strongly suggest including additional safeguards and provisions on the appropriate reviewer concerning the reviewer’s independence from the firm as well as from the audit client and the audit client’s related entities

We also note a lack of clarity in the definition of the firm. Does the 15% threshold apply to the firm as a legal entity or to the way the firm operates in the market? For example, firms in specific jurisdictions comprise tax or legal services that represent separate legal entities, however are perceived as one (audit) firm providing services to the client.

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

Paragraph R410.17 states that when for each of two consecutive years the total fees from an audit client that is a PIE represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year’s financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements (“pre-issuance review”) might be a safeguard to reduce the threat to an acceptable level, and if so, apply it. An analogue to Paragraph R410.14 should be the responsibility of the firm to develop a suitable safeguard to deal with the situation if this safeguard is unsuitable or not available. If this is not possible, the firm shall cease to be the auditor of that client. In addition the audit firm should document the sufficiency of the safeguard and monitor or re-assess the situation periodically.

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

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

Yes, we support that the firm shall determine whether a pre-issuance review, performed by a professional accountant who is not a member of the firm, might be a safeguard to reduce the threats to an acceptable level in case of perceived fee dependency for PIE clients.

However, we suggest that the firm should be required to do so as from the third year of the perceived fee dependency as currently required in the EU Audit Regulation. According to this Regulation, the audit committee has the discretion to decide whether the firm can continue to be the auditor in the fourth and fifth years. For the purpose of the Code, we think it will be sufficient to refer to the new requirement of communicating with TCWG (proposed R410.24) in this paragraph.

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

While we agree in principle with the proposals in this paragraph, we believe that it would benefit from further consideration as to the practical implications. .

In particular, it is not clear who this external accountant might be and what level of experience and qualification they would need. For instance, would they need to be an audit partner in a similar firm with industry and other relevant experience? Would the professional indemnity insurance cover of the hiring firm be extended to over them or would they need to have their own cover?

The extent of the review and their responsibilities/liability (if any) to the audit client need to be clarified. The timing of the review would need to be clear and where it overlaps or otherwise with the firm's own engagement quality control reviews.

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

Australia is concerned by the proposition contained in R410.18. The requirement suggests that where two or more firms are engaged to conduct an audit (i.e., a joint audit) of the client's financial statements, the involvement of one firm in the audit which does not have potential fee dependency, may be regarded each year as an action equivalent to that described in paragraph R410.17.

Paragraph R410.17 requires that an engagement quality review be performed by a professional accountant who is not a member of the firm expressing an opinion on the financial statements where for each of two consecutive years, the total fees from a PIE audit client is likely to be in excess of 15% of the total fees received by the firm.

CPA Australia believes that where two or more firms are engaged to conduct a joint audit and express a unified audit opinion, that insufficient objectivity exists for either auditor to provide a safeguard equivalent to that contained in R410.17.

CPA Australia is supportive of the concept of a "pre-issuance review" where the audit of a PIE is, or is likely to represent, more than 15% of the total fees received by the firm. CPA Australia holds concerns, however, that the proposed safeguard may be difficult to apply, particularly for audits conducted by smaller audit firms.

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

We support the proposed action.

We suggest, however, that that "review by a professional body" should be included as a possible safeguard, despite this being unlikely to actually occur, and concur with including the use of a professional accountant who is not a member of the firm in this instance.

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

We note the proposed action in paragraph R410.17 for audit firm to determine whether a pre-issuance review on the second year's financial statements would be a safeguard if the fee dependency continues in the second year of the audit engagement and if so, apply it. The pre-issuance review is proposed to be equivalent to an engagement quality review and be performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements.

In general, we observe that an engagement quality review would be required for the audit of listed entities or PIEs and should be undertaken throughout an engagement, rather than prior to the issuance of financial statements. Such review is normally performed by a professional accountant from the same firm expressing the opinion on the financial statements and who is not involved in the audit engagement. Accordingly, it will be costly for the firm to have another round of pre-issuance review being performed by a member who is not from the firm opining on the financial statements. It is necessary for IESBA to provide clarity on the expected scope of 'pre-issuance review' for users to understand the comparison against engagement quality review.

We also note that IESBA proposes to remove both pre-issuance review on the second year's financial statements by a professional body and post-issuance review on the second year's financial statements (by a member who is not from the firm opining on the financial statements or by a professional body) from the extant Code.

In our opinion, SMPs might face challenges in performing pre-issuance reviews on the financial statements as there will be additional costs to be borne by the SMPs to comply with this proposal.

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

If IESBA does not support an outright ban for an auditor, we believe that involvement of the audit committee in any decision on such situations is an appropriate and sensible approach.

In practice, the cost of an additional review will place smaller firms at a competitive disadvantage.

The “relief” intended in paragraph R410.18 by having another firm jointly involved in the audit may also increase costs (this has been one reason joint audits are not widely used unless mandated), and thus be equally disadvantageous.

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

When for each of two consecutive years the total fees from a certain audit client that is a public interest entity represent more than 15% of the total fees, it is considered to have created a threat to independence of auditors. Under the circumstance, the engagement quality review, as proposed in the paragraph R410.17, might be a safeguard to reduce the threats to an acceptable level.

As explained in our answers to the Q7, the Korean law bans a professional accountant not belonging to the firm on engaging in the audit work, thereby making it impossible for him/her to perform pre-issuance review, as proposed in the paragraph R410.17 (prior to the audit opinion being issued, having a professional accountant, who is not a member of the firm expressing the opinion on the financial statement review the audit work). We suggest the IESBA consider developing additional guidance as to whether other types of safeguards are applicable under the jurisdictional circumstance.

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

It is recommended that the IESBA provides greater clarify on the definition of “a” PIE. In Malaysia, there are sovereign funds owned by the Government which in turn have equity investments in many public listed entities which are commonly known as GLCs (Government- Linked Companies). These GLCs are inter-related because of common ownership. We would like to seek clarification as to whether an audit client comprises of a company or a group of companies stand-alone or should other related GLCs under the same sovereign funds be included when considering the dependency.

In addition to the above, we believe that it is too short of time for a firm to resolve the issue of exceeding the threshold of 15% of the total fees received by the firm, prior to the audit opinion being issued on the second’s financial statements. We suggest the IESBA consider to revise the second year’s financial statements to third year’s financial statements as this will give firms sufficient time to resolve the issue of exceeding the 15% threshold requirement.

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

We suggest to aligne the proposed paragraph R410.7 with the corresponding requirement in Art. 4 para. 3 of the EU Audit Regulation (EU No 537/2014). The later refers to the last three consecutive financial years as the relevant time periode. Furthermore according to this Regulation, it is to the discretion of the audit committee to decide whether the firm can continue to be the auditor in the fourth and fifth years.

## **Firms**

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

Where total fees do exceed 15%, we have always considered the two-year period to be robust and appropriate in the context of having an option of a post-issuance review. We do not support the removal of this option as a safeguard, however, if the Board believes that it should be removed, we would recommend that the two-year period be extended to three years.

Paragraph R410.17 suggests that a pre-issuance review might be a sufficient safeguard to reduce threats to an acceptable level, however, it does not then describe the available options to the auditor should this not be the case.

## **Others**

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

For the purpose of consistency (with paragraph R410.14), we suggest that “review by a professional body” should be similarly provided as a possible safeguard. This is despite the Board’s contention that it is not too likely to happen in a real-life situation (see paragraph 53 of the Explanatory Memorandum).

Given the heightened state of public interest expected from clients that are PIEs, we are of the view that the use of a professional accountant who is not a member of the firm may be justifiable in this case (paragraph R410.17). However, our response is very much dependent on the outcome of the IESBAs ongoing project relating to the definition of the term PIEs, since not all PIEs defined in local laws and regulations throughout the world carry the same degree of public interest.

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

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

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

No, they should be more restrictive. Our ethical standard imposes a more restrictive threshold and other conditions than IESBA is proposing, including not acting as the provider of the engagement if the threshold will be regularly exceeded (more details are given in our response to IESBA's 2018 Fees Questionnaire).

The requirement in paragraph R410.17 is too weak in allowing the firm expressing an opinion on the financial statements to determine whether an engagement quality review, performed by a professional accountant is not a member of the firm, might be a safeguard to reduce the threats to an acceptable level. If the threats are not at an acceptably low level the firm should not act as the auditor. We do not believe there are any safeguards, including review by an external reviewer, that can reduce the threats to an acceptable level where a firm has an ongoing fee dependency on a PIE client.

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

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

We do not support the proposed action in paragraph R 410.17 because we believe that the extent provisions of the Code regarding fee dependency for PIE audit clients are better suited to realistically address the topic.

Firstly, we believe that when the auditor is in a situation where the total fees from a PIE audit client are likely to represent for the second consecutive year more than 15% of the total fees received by the firm, the first step should be to go to Those Charged with Governance and discuss the matter with them, as required by paragraph R410.24. Secondly, we do not understand why the present proposal has eluded the possibility of a post- opinion review which exist in the extent code and should be retained.

Thirdly, we believe that keeping the external "pre-issuance review" as the only possible safeguard is not practicable. The auditor will never be able to find an external Independent reviewer, in the constraint deadlines in which the audit of the PIE clients, and especially of the listed clients, is conducted.

Finally, as in the case of the Non-PIE audits, we support the proposal In paragraph R410.18, that when the audit is conducted jointly by two or more firms, such joint-audit, with appropriate cross-review, constitutes a safeguard for the independence of the auditors

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

We have difference of opinions. Firstly, we agree that in case of high dependency on audit fees of any particular PIE client, the proposed action may reduce the threats created by fee dependency to an acceptable level. We believe that this action might be a safeguard to reduce the threats created to an acceptable level.

But we think the percentage of fee may be fixed at 20% instead of 15% in case of PIE to treat it as high dependency, because except for big firms there are many small and medium firms who have fee dependency on any particular PIE audit client (i.e. more than 15%) which should not be fall under the proposed action.

The definition of PIE also needs further clarity for determining such fee dependency. In Bangladesh, PIE has been very widely defined by one of the local regulators recently which is not aligned with the concepts that underline the definition of a PIE in the Code relevant to the term “entity of significant public interest” in the IAASB’s extant or proposed standards. Because of inclusion of wide variety of entities under PIE category specifically in Bangladesh, the fee dependency may be considered at 20% in case of PIE instead of the proposed 15%, otherwise it may be very difficult job to implement the proposed action in Bangladesh.

We also believe that this has impact on the firm’s independence and confidentiality, because an independent reviewer who is not a member of the firm will review the firms expressing opinion prior to the audit opinion being issued by the firm.

## **Firms**

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

Please see our comments in response to Question 7 above where we raise concerns over the role of the Independent Professional Accountant. The same concerns apply in regard to PIE audits with the following additional comments:

- the Code should be clear that the Independent Professional Accountant should have relevant expertise in the field of PIE audits
- it is not clear how the role of the Independent Professional Accountant sits alongside the requirement to have an Engagement Quality Control Review for Listed/PIE engagements, and what the relative roles and responsibilities are.

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

We do not think the proposal is practicable and can foresee difficulties in finding appropriately qualified reviewers in the concentrated timetable of a PIE audit. We would prefer that in this scenario the formal approval of TCWG/Audit Committee of the client is obtained.

Also, when a joint audit is in place, this constitutes a safeguard for the independence of the auditors.

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

We believe that the extant code provides better guidance and offered helpful actions to take to address the issues created and so we do not support, nor understand the need for, a change.

## **4. No comment**

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

#### **1. Bangladesh Financial Reporting Council (BFRC)**

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

### **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)**