Subject: IESBA ED Proposed Revisions to the Fee-related Provisions of the Code

Dear Sir or Madam,

Accountancy Europe is pleased to provide you with its comments on the IESBA Exposure Draft (ED) on proposed revisions to the fee-related provisions of the Code.

We believe that potential self-interest and intimidation threats should be evaluated by firms considering various factors about audit fees. However, being paid by clients does not per-se create a self-interest threat to auditor’s independence.

The overall corporate governance regimes audit clients have to apply in accordance with the laws and regulations in their respective jurisdictions, the existence of the independence provisions in the Code along with firms’ quality management systems and public oversight, work together in mitigating these potential threats. Consequently, as noted in the explanatory memorandum to the ED, the payment of audit fees by the client has become a practice that is accepted by stakeholders, including the intended users of financial statements.

We agree that audit fees should not be influenced by the provision of other services by the auditor and that firms should monitor their fee dependency on non-PIE audit clients as well.

We also support enhanced transparency of fee-related information noting the fact that auditors can only have limited responsibility in ensuring this transparency.
Finally, we highlight that some non-audit services are closely related to audit of financial statements and thus, they have a different impact on auditor’s independence. This fact should not be overlooked when considering the proportion of fees for non-audit services to audit fee in the self-interest threat evaluation process.

Sincerely,

Florin Toma
President

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).
ANNEXE - REQUEST FOR SPECIFIC COMMENTS

Evaluating Threats Created by Fees Paid by the Audit Client

1. Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

We acknowledge that there is an inherent risk related to auditor’s independence as audit fees are negotiated with and paid by the audit (or assurance) client. The level of that risk depends on factors such as the parties involved in auditor selection and in audit fee negotiations.

This risk is the raison d’être of the independence standards for auditors and significant safeguards are already in place in response to potential threats. The entire Code and particularly Part-4A aim to ensure auditor’s independence in the audit client payer model. As noted in the explanatory memorandum, this model is widely accepted by users of financial statements.

The quality management systems in audit firms are also relevant in this regard and stand as a significant safeguard especially after improvements introduced by [proposed] ISQM 1. One of the components of these systems is the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Furthermore, there are specific procedures in every jurisdiction regarding the involvement of the audit committee or supervisory board in relation to auditor’s appointment and remuneration. Finally, audit firms are subject to public oversight which monitors, among others, whether the auditor complies with the independence requirements.

Therefore, we think that the self-interest threat is not a given in all cases. There is a risk which is sufficiently recognised and addressed by the provisions of the extant Code and is also mitigated by other factors described above.

2. Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:
   a. Before the firm accepts an audit or any other engagement for the client; and
   b. Before a network firm accepts to provide a service to the client?

Yes, we support the concept that an audit firm has to determine whether the threats to independence are at an acceptable level before accepting an engagement. Accordingly, the quality management system in an audit firm is designed to provide reasonable assurance that it will undertake only engagements where the firm can comply with ethical requirements.

The provisions in Part-1, Part-3 and Part-4A of the extant Code already include safeguards and factors to consider when evaluating threats. Hence, we are uncertain whether this issue should be dealt with in an additional provision.

Also, we doubt whether costs related to this requirement, such as time spent for extra documentation, are justified by any additional benefits. As such, we recommend reconsidering this requirement.

Please also see our response to Question 1.

3. Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures
No, we do not believe that the IESBA should consider any other factors than the ones mentioned in our response to Question 1. The implications of and potential threats created by the audit client payer model are well known and accepted by stakeholders.

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

Impact of Services Other than Audit Provided to an Audit Client

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

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

Proportion of Fees for Services Other than Audit to Audit Fee

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?

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.

### Fee Dependency for non-PIE Audit Clients

6. Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

Yes, we agree that firms should monitor their fee dependency on a non-PIE audit client as well using a threshold. We observe that in some EU countries similar requirements have already been established by national legislation or standards. Overall, the appropriateness of the threshold, i.e. what is the most appropriate percentage, will depend on the circumstances of the jurisdiction.

7. Do you support 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?

Yes, we support that the firm shall determine whether a pre-issuance or post-issuance review might be a safeguard to reduce the threats to an acceptable level in case of perceived fee dependency on a non-PIE client.

### Fee Dependency for PIE Audit Clients

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?

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.

9. Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

Yes, we agree with this proposal. The EU Audit Regulation already requires an audit firm to cease to be the auditor of a PIE client if the perceived fee dependency continues for five consecutive years.
10. Do you support the exception provided in paragraph R410.20?

Yes, we support the exception provided since the Code should be principles-based and flexible enough to be accepted and applied globally. IESBA could also consider providing additional guidance for jurisdictions where there is a lack of independent regulatory or professional institutions.

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Transparency of Fee-related Information for PIE Audit Clients

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

We agree that enhanced transparency of fee-related information can serve to better inform the views and decisions of stakeholders about the auditor’s independence.

However, we consider this to be a corporate governance issue dealt with in national legislation rather than a matter that should be included in the Code. The stock market rules and national legislation on Company Law usually set out requirements for reporting entities with regards to transparency of the audit fee information. Auditors, in general, have limited capacity and responsibility in ensuring the transparency of fee-related information unless this is required by laws and regulations.

According to the EU Accounting Directive, public interest entities and large limited liability companies as defined by the Directive have to disclose the total fees charged by each statutory auditor or audit firm. This information shall be disclosed separately for four categories of service: annual financial statement audit, other assurance services, tax advisory services and other non-audit services. The requirement does not include the fees charged by other auditors and firms. In this regard, we are concerned that it may lead to an adversarial relationship if the auditor tries to convince the entity to report more than what is required. It is even more problematic if the entity is not convinced and the auditor has to disclose the information in the auditor’s report.

Finally, certain related entities of an audit client may not be subject to the group audit procedures in accordance with ISA 600. The actual or estimated fees paid or payable to network members and other firms that provide services to these entities should not be within the scope of this consideration. These fees do not have any impact on the group auditor’s independence, and it is impractical for the group auditor to obtain such information.

12. Do you have views or suggestions as to what the IESBA should consider as:

   a. Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and

   b. Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm’s independence?

We would like to note that, within the standard procedures when negotiating the audit fee and obtaining approval for the provision of a non-assurance service, audit committees are already involved and provided with fee-related information. There are also certain requirements for auditors in the International Standards on Auditing (ISAs) regarding the communication with TCWG. In practice, we see that the level of interest from TCWG differs from one entity to another. Therefore, auditors should be required to communicate only essential information that will be used by TCWG.
Anti-Trust and Anti-Competition Issues

13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

We do not have any specific comments on anti-trust and anti-competition issues. However, we are concerned that the requirement to collect and publicly disclose fee information of firms which are not members of the audit firm’s network might cause anti-competition issues. If such a proposal is taken forward, we urge IESBA to seek legal advice with respect to at least the G-20 jurisdictions.

Proposed Consequential and Conforming Amendments

14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

Yes, we support the proposed consequential and conforming amendments to other sections. Generally, the overdue fees are expected to be received before issuing the report for an assurance engagement unless they are immaterial amounts.

15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

No, we do not see any other areas within the Code that warrant conforming changes.