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Submitted electronically

Brussels, 15 May 2020

Dear Stavros,

**Response to the IESBA's Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code***

EFAA appreciates the opportunity to provide our comments to the IESBA Exposure Draft, [\*Proposed Revisions to the Fee-related Provisions of the Code\*](#). Our response has been prepared with input from our Assurance Expert Group.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 12 national accounting, auditing and tax advisor organisations with more than 350,000 individual members.

**GENERAL COMMENTS**

EFAA appreciates the great effort taken to consider the potential impact on SMPs and their SME clients and welcomes the way the ED proposes differential treatment for SME engagements from PIE engagements since this helps ensure the scalability of the provisions. We also recognize that the project to define PIEs and Listed Entities will greatly impact this ED.

We acknowledge the need for the fee proposals to maintain public trust and confidence in the audit by addressing public perceptions about auditors' independence. We are concerned, however, that SMPs are currently overwhelmed with changes, not least those arising from the restructured Code, at a time when they are dealing with unprecedented challenges presented by Covid-19. Accordingly, we urge the Board to defer further changes to the Code especially those, like fees, which are not urgent.

**QUESTIONS IN ED**

- 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 agree.

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?***

We question the need for this requirement given the current provisions in Parts 1 and 4A of the Code and the requirements of ISQM 1 in relation to compliance with ethical requirements.

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 the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?***

We support in principle the idea of an independent committee.

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

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?***

We support this requirement.

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?***

We support this requirement.

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?***

We support the proposal to include a threshold and support the proposed threshold.

We urge the IESBA to conduct a post-implementation to determine the threshold's effectiveness.

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?***

We are generally supportive of the proposed actions.

We question, however, whether the requirement to use a professional accountant who is not a member of that firm is feasible and cost effective for many SMPs.

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?***

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.

**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?**

We agree with this in principle.

We do, however, have concerns as to whether it can be effectively operationalized. IESBA is a standard setter, not regulator, and should avoid superseding the authority of those who currently have the right to appoint auditors, typically shareholders. Transparency of public disclosure on fees is designed to enable those charged with appointing auditors to make an informed decision in the best interest of the audited entity. Furthermore, we understand that the evidence of a relationship or association between fee dependency and auditor independence / audit quality is not conclusive. The IESBA might wish to instead have a principles-based provision that requires the firm, when total fees from an audit client exceed 15%, to consider whether a reasonable and informed third party would likely reach the conclusion that there is fee dependence.

**10. Do you support the exception provided in paragraph R410.20?**

We support the exception.

**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?**

Yes, we are supportive of the proposed requirement in paragraph R410.25 regarding public disclosure of fees related information for a PIE audit client. We believe this is a powerful mechanism and definitely, a factor to be considered when evaluating the application of safeguards.

**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 judgements and assessments about the firm’s independence?**

We have no views or suggestions.

**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 have no further comments.

We trust the European Commission will respond to this ED to ensure it is acceptable.

**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 are supportive of the consequential and conforming amendments to Section 905 and other part of the Code.

**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?**

We have no further comments.

## CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin  
President

Paul Thompson  
Director