



4 June 2020

Ken Siong  
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Dear Ken

**Comments on the IESBA's Proposed Revision to the Code Addressing Fee-related Provisions**

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the Proposed Revision to the Code Addressing the Fee-related Provisions.

Our response has been prepared by the Audit Research and Development Business Unit of the Auditor General of South Africa's office. Our comments are presented under the following section:

1. Request for specific comments and responses

If further clarity is required on any of our comments, kindly e-mail us at [ardsupport@agsa.co.za](mailto:ardsupport@agsa.co.za). Alternatively, phone us directly on +27 12 426 8000.

Yours faithfully

Nhlanhla Ngaka

**Deputy Business Executive: Audit Research and Development**

## **Request for specific comments and responses**

### **Evaluating Threats Created by Fees Paid by the Audit Client:**

#### **Question 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 believe that a self-interest threat is created whenever fees are negotiated and paid by the audit client. Furthermore, there is also a potential intimidation threat to independence that might be created depending on the relative significance to the audit firm of either the fees for other professional services or audit services or both.

#### **Question 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 proposed requirement.

#### **Question 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?

For large firms, we support the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence. However, these might not be possible for medium and definitely smaller firms.

Impact of Services Other than Audit Provided to an Audit Client:

**Question 4**

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

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

Proportion of Fees for Services Other than Audit to Audit Fee:

**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?

Yes, we support the guidance.

Fee Dependency for non-PIE Audit Clients:

**Question 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, however more guidance could be included on what constitutes the total fees (e.g. Should firms include fees from NAS when estimating the threshold?).

**Question 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?

The proposal is supported as an appropriate safeguard to reduce the threats to an acceptable level for engagements with non-PIEs.

Fee Dependency for PIE Audit Clients:

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

**Question 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 that after a certain period of time, the fee dependency would become so persistent and fundamental and the application of a pre-issuance review will not be an effective safeguard if the fee dependency continues beyond five years.

This provision should be applied prospectively to limit the effect on firms.

It is unlikely that fee dependency will result in a threat to the independence of a SAI, due to the number of auditees the SAI is mandated to audit. Where the audit of public sector institutions is however performed by private firms, these firms should also cease to be the auditor after a consecutive 5 year period.

**Question 10**

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

Yes, Independent regulatory bodies are well placed to make a determination as to whether there is a compelling reason for an auditor of a PIE to continue beyond five years. Specific guidance in this regard should be provided to the Independent regulatory bodies.

Transparency of Fee-related Information for PIE Audit Clients:

**Question 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 support the requirement, however we propose that instead of firms having flexibility in terms of disclosure to achieve such transparency (i.e. the disclosure can be made by either the audit client in its financial statements, annual report or proxy statement by the firm in a manner deemed appropriate for the circumstances), a consistent approach be followed. To avoid inconsistency in application of this provision, which may lead to varying degrees of effectiveness, it could be prescribed that the information required by paragraph R410.25 is included in the annual report of the PIE as a separate disclosure.

### **Question 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?

To avoid inconsistency in application of this provision, it could be prescribed that the information required by paragraph R410.25 is included in the annual report of the PIE as a separate disclosure.

### **Anti-Trust and Anti-Competition Issues:**

### **Question 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. Tax avoidance is illegal and thus it is automatically prohibited. Including it may be incorrectly interpreted.

No, as the proposals do not directly affect the AGSA as a supreme audit institution with a mandate to audit all government funded institutions.

### **Proposed Consequential and Conforming Amendments:**

### **Question 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?

The proposed consequential and conforming amendments are necessary to ensure alignment with the proposed changes in the ED and are therefore supported.

From a public sector perspective audit reports are required to be issued by legislative deadlines regardless of whether audit fees are overdue and therefore we do not expect that payment of all overdue fees would need to be obtained before issuing a report.

**Question 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 did not identify any other areas which require conforming changes.