



04 June 2020

**BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER  
TO EXPOSURE DRAFT, *PROPOSED REVISIONS TO THE FEE-RELATED  
PROVISIONS OF THE CODE***

**Introduction**

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IESBA’s Exposure Draft, *Proposed Revisions to the Fee-Related Provisions of the Code*. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

*Signed electronically*

**Mosireletsi M Mogotlhwane ACA**

Manager –

Technical and Public Sector

Accounting Services

*Signed electronically*

**Edmund Bayen**

Director -

Technical and Public Sector

Accounting Services

## RESPONSES TO SPECIFIC QUESTIONS

### 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)?*

Response:

There is an inherent self-interest threat and intimidation threat where fees are negotiated and paid by an audit client. This would otherwise not be the case if the auditor was appointed and paid by a third party.

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?*

Response:

We agree with the proposal that the firm evaluates threats to independence created by fees proposed to an audit client at beginning of the relationship and throughout the engagement where circumstances change. The assessment should be performed both at firm level and with the network because some engagements are performed across the network.

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?*

Response:

The Board should consider effectiveness of any measures proposed to the firms to mitigate risks associated with threats arising from fees. Existence of an independent committee would not be feasible given that audit firms are partnerships and want to contain matters of their operations without involving external parties. Even so, where the committee is establishment it would not have any powers over the firm and therefore would be ineffective.

## **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?*

Response:

We agree with the proposal. In putting forward a fee a firm ought to only consider elements associated with the audit at hand and not any other service it provides to the client or as provided by its network firm.

## **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?*

Response:

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.

## **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?*

Response:

We support including a threshold because it reduces discretion that could be applied by firms. The 30%, however, is too high and there is no indication of benchmark applied to arrive at the figure. Five consecutive years of a firm with a fee, exceeding threshold before mitigating risk is not reasonable.

The cumulative effect of a firm having its fees for one entity making up more than 30% of its total fees over five years is too much to be borne and ignored. This percentage is provided as a minimum and therefore there is likelihood that firm fees from one client could be as high as 80% of the firm total fees with no action taken given that there is no cap beyond which an engagement is prohibited.

We propose that the board applies a minimum of 20% threshold that is used as an indicator of influence in various standards such as IAS 28 *Investment in Associates* and reduce the period requiring action to three years. This measure would strengthen mitigations over self-interest threats and ensure that any action required is taken timely.

We also propose for establishment of a maximum threshold beyond which the relationship ought to be terminated. For this, we propose a cap of 40%.

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?*

Response:

We support the proposed actions with amendment to the periods as suggested above from five to three years.

#### **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?*

Response:

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

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?*

Response:

Five year provided in paragraph R410.19 is too long for a PIE. In any case, most PIEs tend to bid to change auditors every three or five years. This would mean an audit firm that is not being retained, would have exceeded the threshold for the entire duration of the relationship with the client. Engagement Quality Review notwithstanding, the period should be adjusted to three years.

This aspect is important as it brings into consideration whether audit firms taking up PIE audit may be too small to audit PIEs. If a firm goes for more than two years with fees of a single PIE exceeding 15% of total firm fees that would signify risk of fee dependency and that the firm may even lack capacity to assume new clients and therefore too small for the PIE.

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

Response:

We agree with the proposal subject to amendment of the period as indicated above.

### **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?

Response:

The requirement does not indicate that it relates to PIE audit clients. This should be indicated in the sub heading.

We agree with the requirements as proposed in the paragraph. The disclosure provides transparency to other stakeholders apart from those charged with governance.

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?

Response:

Proposal made in paragraph R410.25 are comprehensive for transparency to stakeholders at large.

### **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?

Response:

The large extent of the code should remain global to allow common understanding particularly with respect to network firms operating in various jurisdictions. Adoption to jurisdictions could be allowed in coming up with a specific threshold to account for varying degree of economic factors.

## **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?*

Response:

We agree with other aspects of the Exposure Draft.

With respect to timing of payments, fees are paid when the engagement is complete and the audit report signed off. This is the same with any other contract - payment is due when the work is performed. Before signing the audit report therefore, the fees are not overdue. They are only overdue when significant time passes post signing the audit opinion before they are paid. In this instance self-interest threat should be evaluated for an ensuing audit.

*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?*

Response:

None identified.