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Mr Ken Siong,  
Senior Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, New York 10017 USA

By Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Ken,

**Exposure Draft: *Proposed Revisions to the Fee-related Provisions of the Code.***

CPA Australia represents the diverse interests of more than 166,000 members working in over 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

We value the opportunity to provide comment on the proposed revisions to the Fee-related provisions of the International Code of Ethics for Professional Accountants (the Code).

CPA Australia recognises the challenges faced by the IESBA in balancing the principles-based framework which underpins the Code, with the perceived benefits of definitive prohibitions, timeframes and thresholds. These challenges manifest in determining the role of standard setters and the role of regulators, whether national or international, and how these must be clearly defined and delineated.

Prescriptive elements within the Code, while well-meaning, may not achieve expected benefits. This may be particularly evident where the professional accountant bases his/her professional judgement on fulfilling compliance requirements rather than the application of principles within the Code. Furthermore, compliance with definitive requirements within the Code may be meaningless to users of the financial and other information being audited by the professional accountant, unless users are properly educated and have a comprehensive appreciation of the Code's requirements.

Additionally, CPA Australia recognises the challenges of setting standards which directly impact business and commercial decisions made by audit firms. The IESBA is encouraged to carefully consider the impact of Fee-related provisions on firms' ability to engage with markets, particularly where proposed revisions result in Mandatory Audit Firm Rotation (MAFR). As the IESBA is aware, there is mixed evidence to support the introduction of MAFR, which the IESBA considered as part of previous reviews of the Code and chose not to implement.

CPA Australia recommends that the IESBA carefully consider the potential unintended consequences of the proposed provisions, one of which may be a concentration of audit services with large firms or network firms, leading to further public interest concerns.

Finally, CPA Australia notes that the proposed revisions are predicated on the assumption that there is a clear and unambiguous understanding of the definition of a Public Interest Entity (PIE). This is clearly not the case, as the project to clarify and define the term is still in its embryonic stages and the International Auditing and Assurance Standards Board (IAASB) is potentially pursuing the use of a different term in its standards. It seems to be premature to make the proposed changes to the Fee related provisions of the Code prior to having clarified the PIE definition, and potentially will lead to adoption and implementation challenges across the globe.

CPA Australia's recommendations with respect to the proposed revisions to the Fee related provisions of the Code are contained in Appendices 1-3 and are summarised as follows. The IESBA should consider/re-consider whether:

- Proposed revisions to the Code should address that self-interest threats created through the payment of the audit fee exist regardless of the party or entity who pays the audit fee.
- An intimidation threat to independence by the payment of the audit fee is contingent on factors affecting fee revenue within the firm, in addition to the payment of the fee. Relevant factors to consider to be included in 410.5 A2.
- While Independence Committees may be a safeguard available for objectively evaluating threats to independence, the ability to effectively establish, and the potential value of, Independence Committees may be proportionate to the size of the entity being audited and the audit firm engaged to conduct the audit.
- Numerical thresholds and timeframes meet their intended purpose, or whether such factors are better placed as guidance in application material.
- The requirement at R410.14(b) needs to be revised by acknowledging jurisdictional limitations.
- All proposed revisions to the Code are proportional and scalable, recognising that all PIE clients are not necessarily large entities, and that across the globe many PIE entities are audited by Small and Medium Practices (SMPs).
- Any requirement in the Code which may, in effect, result in MAFR is appropriate. The IESBA should clearly express its intention with respect to SMPs offering audit services to PIEs.
- To liaise with the IAASB and the International Accounting Standards Board (IASB) on matters relating to the disclosure of audit fees and non-assurance service fees.
- The assumption made at R410.18 is appropriate, that where two audit firms are engaged to conduct a joint audit, that the involvement of one of the firms may be regarded as an equivalent safeguard to that provided in R410.17.
- To defer proposed changes to the Fee related provisions of the Code until after the project on the definition of PIEs has been successfully completed.

Should you have any questions regarding this submission, please do not hesitate to contact Josephine Haste CPA, Policy Adviser – Ethics and Professional Standards on +613 9606 9693 or [josephine.haste@cpaaustralia.com.au](mailto:josephine.haste@cpaaustralia.com.au).

Yours sincerely



**Dr Gary Pflugrath**  
**Executive General Manager, Policy and Advocacy**

## APPENDIX 1 – Schedule of Responses to Specific Questions raised in the Explanatory Memorandum (EM)

### *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)?*

CPA Australia agrees that a self-interest threat to independence, is created when the payment of fees results in a dependency or potential dependency issue between the professional accountant and the entity or person paying the fee. CPA Australia believes that potential threats to independence are not limited to the payment of the fee by the audit client - the threat may arise regardless of whether it is the audit client, a related party, or the regulator, who pays the fee.

CPA Australia supports the IESBA's view that an intimidation threat to independence might be created by the payment of the fee. The extent of the threat however, is contingent on factors such as:

- the level of the fee;
  - the level of the fee in comparison to the turnover of the firm;
  - the level of the fee in comparison to the average fees paid by other clients of the firm;
  - the level of experience and expertise acquired by the firm with respect to the requirements of the engagement and the availability of other auditors who may be able to accept the engagement.
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?*

CPA Australia supports the proposals listed at a) and b). The proposals are principles based, which is consistent with the objectives of the Code. The detailed requirements at R410.4 require the professional accountant to be continuously aware of circumstances which may impact independence throughout the engagement, and thus supports the concept of independence being maintained throughout the engagement.

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?*

CPA Australia supports the IESBA considering the framework by which the professional accountant determines the audit fee. Any additional guidance in the Code should remain principles based and focus on matters the professional accountant might consider to arrive at the proposed fee.

The fundamental principles in the Code are designed to assist the professional accountant in applying sound judgement to all decisions regarding client engagement. Some jurisdictions provide further guidance with respect to client engagement which address issues of ethics and professional standards relating to fees. In Australia, for example, the Accounting Professional and Ethical Standard Board (APESB), provide requirements and guidance to members on terms of engagement which include fee provisions in paragraph 4.8 of APES 305 *Terms of Engagement*.

CPA Australia considers that there might be a role for an independent committee which advises the firm on governance matters impacting the firm's independence, but this role should be proportionate to the size of the firm and may be cost prohibitive for smaller firms. An independent committee that provides recommendations based on applying the principles of the Code may provide a safeguard for self-interest threats. This safeguard would only apply where the recommendations of the committee are adopted.

#### **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?*

CPA Australia supports the requirement in paragraph R410.6 which clarifies the position that it is expected that the audit fee will stand alone and not be contingent on or influenced by the provision of any other service by the 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?*

CPA Australia supports the guidance provided in 410.10 A1 as it is principles-based and consistent with Proposed Revisions to the NAS Provisions of the Code at R600.10.

CPA Australia suggests that, unless the IESBA intends for the listed factors at 410.10 A2 to be exhaustive, the first sentence at 410.10 A2 should indicate that the listed factors are relevant, but that relevant factors may not limited to just those provided in the bulleted list.

#### **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?*

Principles-based standards ideally refrain from prescribing specific thresholds and timeframes as criteria for assessing compliance with the requirements. Allocating an arbitrary percentage and timeframe arguably detracts from the importance of exercising professional judgement and may undermine the fundamental principles of the Code.

Given, however, the inclusion of specific timeframes for auditor rotation requirements in Section 540 of Part 4A of the Code, and the proposal to specify a two-year cooling-off period to enhance the objectivity of engagement quality reviewers, CPA Australia recognises that the prescription of a threshold is consistent with the direction taken by the IESBA in other provisions of the Code. However, there is conjecture amongst Australian professional accountants that the 30% threshold may not be appropriate in all circumstances. Perhaps consideration should be given to whether a threshold be included as guidance in application material rather than a requirement.

CPA Australia recommends that the stem to R410.14 be clearer in what is required by the Professional Accountant. Considering R410.14 is a proposed requirement, interpretation may be subjective given the current wording.

“The firm shall determine which of the following actions it will apply as a safeguard to reduce the threats created to an acceptable level.”

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 actions included in R410.14 a) and b) which relate to fees exceeding the 30% threshold for five years may be appropriate safeguards for a non-PIE. CPA Australia does not support the recommendation in R410.14 b) that requires the professional accountant to seek their Professional Accountancy Organisation (PAO) to review the fifth year’s audit work. It is not the role of the PAO in many jurisdictions to provide an opinion on audit outcomes for their members, nor may the PAO be in a position or have the required skill set to offer such a service. CPA Australia recommends separating the potential safeguard for a PAO to review the fifth year’s work from Option B and to include as Option C with reference to jurisdictional limitations.

*(c) A professional body review the fifth year’s audit work where allowable and where the professional body has the appropriate skill set and expertise available to conduct the review.*

#### **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?*

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.

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?*

While CPA Australia understands the intent of the IESBA to improve public perceptions regarding the independence of the auditor where fee dependency issues exist, CPA Australia does not support a requirement which takes the form of Mandatory Audit Firm Rotation (MAFR). The requirements of R410.19 may practically result in there being no option for a firm, other than to resign from the engagement. Depending on the particular circumstances of the client, the complexity of their business, the geographical location and the availability of practitioners with the appropriate skills to accept the engagement, MAFR may not be in the public interest.

CPA Australia is concerned that the requirements of R410.19 may be inconsistent with the IESBA’s views on MAFR over the past decade.

The IESBA would need to be clear in its intention given;

- the sensitive nature of MAFR;
- the potential negative impact on SMP audit firms; and
- the approach previously taken by the IESBA when addressing issues of rotation elsewhere in the Code.

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

CPA Australia supports the IESBA's recognition that there may be compelling circumstances for a firm to remain the auditor of a PIE beyond 5 consecutive years of fee dependency. With reference to our views expressed in response to Question 7, we recommend that option (a) be drafted to allow for limitations which may be relevant to some PAOs. Furthermore, with reference to our response to Question 8, option (b) may be difficult to apply for smaller audit firms, which may have the effect of restricting market participation.

CPA Australia supports the concept of consultation as it requires the firm to exercise professional judgement and apply the fundamental principles and conceptual framework to arrive at an appropriate course of action.

**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?*

CPA Australia supports public disclosure of fee related information for a PIE audit client as it increases information available to users and other market participants, which may improve the quality of the decisions made by those using this information.

In Australia, section 300 of the Australian Corporation Act 2001 (Cwlth) (the Act), requires listed companies to disclose fee related information payable to the auditor with respect to non-audit services (NAS) and for a statement to be made by the Directors that they are satisfied that these payments did not compromise auditor independence requirements contained in the Act. Furthermore, Australian Accounting Standard (AASB) 1054, paragraph 10 requires that PIEs and listed entities disclose fees to auditors and reviewers, including network firms, for the audit or review of the financial statements and all other services performed during the reporting period.

CPA Australia believes that disclosures relating to audit and NAS fees are best made in the entity's financial statements on which the auditor expresses an opinion in accordance with the Auditing Standards. The stem at R410.25 implies that should the audit firm not be satisfied that the information in (a)(i) and (a)(ii) is publicly disclosed, that any necessary disclosure be included in the Auditor's Report. Any intention or inference that information related to fees be disclosed in the content of the Auditor's Report is a matter for the IAASB to consider rather than the IESBA.

Paragraph R410.25 acknowledges that the requirements in subparagraphs (a) and (b) may be met by compliance with laws and regulations which substantively satisfy the requirements. CPA Australia suggests that the requirement at option (c) may not take into consideration circumstances which inadvertently result in unintended and temporary fee dependency straddling two financial years. CPA Australia suggests the IESBA re-consider the two-year time frame specified at option (c) and extend it to three years. A three-year time frame may more appropriately reflect a fee dependency issue which is not caused by transient forces within the firm.

Based on the successful application of AASB 1054, paragraph 10 and section 300 of the Act in the Australian context, CPA Australia recommends that disclosure requirements are a matter for accounting standards, auditing standards and jurisdictional corporations' law. Fee disclosures are best mandated in legally enforceable requirements rather than principles.

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

Please refer to CPA Australia's response to Question 11.

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

Please refer to CPA Australia's response to Question 11

### **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.

CPA Australia is not aware of any impediment within the Australian Competition and Consumer Law framework which would prevent adoption of the proposed amendments by National Standard Setters.

### **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?

CPA Australia is supportive of the proposed consequential and conforming amendments to Section 905.

CPA Australia recommends further review of R 270.3 (b) and 270.3 A3

Requirement 270.3 (b) states that:

R270.3 A professional accountant shall not:

(b) Place pressure on others that the accountant knows, or has reason to believe would result in other individuals breaching the fundamental principles.

The fundamental principles of the Code apply only to professional accountants, as such, 'other individuals' are not required to adhere to the fundamental principles.

CPA Australia recommends that the IESBA consider changing R270.3 (b) as follows:

R270.3 A professional accountant shall not:

(b) Place pressure on other professional accountants that would reasonably result in these other professional accountants breaching the fundamental principles.

Based on the recommended changes to R270.3 (b), consequential amendments would be required to 270.3 A3 as follows:

270.3 A3 An example of pressure placed on other professional accountants that might result in threats to their compliance with the fundamental principles would be pressure exerted on another professional accountant to provide professional services at a fee level that does not

allow for sufficient and appropriate resources (including human, technological and intellectual property resources) to perform the service in accordance with technical and professional standards.

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?*

CPA Australia has not identified any other areas within the Code that require conforming change as a result of the proposed revisions.

## APPENDIX 2 – Schedule of Responses to General Questions raised in the Explanatory Memorandum

### 1. Those Charged with Governance (TCWG), including Audit Committee

CPA Australia supports the application material provided in 410.21 A1 relating to transparency between the Audit Firm and TCWG. While CPA Australia supports the concept that transparency enables informed decisions to be made regarding the Audit Firm's independence, we suggest that transparency for the purposes of assessing independence is useful only to the extent that TCWG have an appreciation of what is required in Parts 4A and 4B of the Code. Depending on the experience, skills and expertise of TCWG it may be incumbent on the professional accountant to fully inform TCWG about the requirements of the Code to facilitate an appropriate assessment of independence.

### 2. Small and Medium Sized Entities (SMEs)

It is important to consider that PIE clients are not always large entities serviced by large audit firms or network firms. It is recognised that in many jurisdictions PIEs can be small entities, whose auditors are SMPs. Where revisions to the Code are proportionate and scalable, adoption and compliance are anecdotally more successful. The proposed changes to both Fees and NAS, in addition to the proposed changes to ISQM 1 and 2, are significant and will require considerable change to operational policies and procedures for all firms, including smaller firms with limited resources. CPA Australia holds concerns that the quantum of all changes will increase the administrative burden for professional accountants which may be disproportionate to the public interest benefits derived where audits are performed on PIEs which may be SMEs often audited by SMPs.

### 3. Regulators and Audit Oversight Bodies

CPA Australia offer no response to this question

### 4. Developing Nations

CPA Australia offer no response to this question

### 5. Translation

CPA Australia offer no response to this question

## APPENDIX 3 – Other comments raised in response to the Explanatory Memorandum

1. CPA 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.