



Grant Thornton

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Proposed Revisions to the Fee-related Provisions of the Code

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the exposure draft, Proposed Revisions to the Fee-related Provisions of the Code, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide professional services to clients. Professional services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

Request for Specific Comment

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)?*

GTIL disagrees that in the normal course of business, 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.

Variability in audit fees is caused by client attributes associated with audit effort and audit risk in order to perform a high, quality audit. The size of the client, the industry they operate

in, and their overall complexity are factors that are considered when determining an audit fee, regardless of who pays the fee.

Although we do not believe an auditor's independence or objectivity will be compromised as a result of the standard market practice of an audit client paying their audit fees, we acknowledge that when there may be a fee dependency, there may be threats to the firm's independence.

2. *Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by 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?*

GTIL supports the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by fees proposed to an audit client are at an acceptable level for both (a) and (b) above.

Although GTIL does not 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, we do believe it is important that any threats that may arise from proposed fees to an audit client should be analysed and properly addressed through the implementation of appropriate safeguards.

3. *Do you have views or suggestions as to what IESBA should consider as further factors (or conditions, policies, 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?*

GTIL does not have views or suggestions regarding further factors IESBA should consider relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the client, because we don't believe this situation creates threats to auditor independence for the reasons outlined in 1. above.

We believe independent directors play a vital role by serving on firms/networks' boards because they bring an outside perspective to help improve governance standards, corporate credibility, and risk management. Furthermore, we believe this is a practice the profession is utilizing more consistently to achieve quality and accountability in their organizations.

However, we are unclear as to the proposal by the Board as it relates to the existence of an independent committee to advise on governance matters of a firm, as most firms do not have separate independence or governance committees, nor is there a framework for audit

fees to be separately approved. Therefore, we are unable to provide comments on this example.

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?*

GTIL supports 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.

Impact of Services Other Than Audit Provided to an Audit Client

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?*

GTIL supports the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1.

However, we believe a more holistic approach would be for the proposal to focus on non-assurance fees charged by the firm expressing an opinion on the financial statements, and only extend to other firms in the professional accountant's network that provide non-assurance services to the audit client, if that firm also participates in the audit of the audit client.

Additionally, we believe the guidance should only extend to related entities included in the consolidated financial statements that the firm expresses an opinion on. We believe this approach is consistent with the proposal in R410.25 (b), Public Disclosure of Fee Information.

We base our recommendations on the premise that independence in fact when performing non-assurance services is determined by the scope of services being performed, and whether the scope of services has compromised the auditor's independence and objectivity. There is no correlation to level of fees being charged for non-assurance services in the assessment of independence. Level of fees charged by the auditor for non-assurance services is more of a demonstration of independence in appearance. Therefore, we believe based on this perception, only firms performing audit services for the audit client in the network should be subject to this requirement.

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?*

GTIL supports 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 and we support the proposed threshold in paragraph R410.14.

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?*

GTIL supports 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.

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?*

GTIL supports 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.

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 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?*

GTIL does not agree with the proposal in paragraph R410.19 requiring a firm to cease to be the auditor if fee dependency continues after 5 years for a PIE audit client.

We believe there are safeguards that could be utilized by the firm to sufficiently mitigate any threats, such as:

- requirements in professional standards and jurisdictions regarding disclosure of fees to the audit committee/Those Charged With Governance (TCWG), including a discussion of any threats to independence that may arise as a result of fees and the safeguards applied to mitigate those threats,
- requirements in professional standards and in jurisdictions regarding disclosure of fees in the audit report,
- performing pre-issuance reviews of the audit engagement,
- including the audit engagement in the firm's list of engagements that require inspection under proposed ISQM1 when the audit fees from the engagement exceed 15% of the total fees received by the firm,

- and firm rotation requirements in certain jurisdictions

Furthermore, we believe firms and network firms will face challenges where they have PIE audit clients in smaller markets or specialized industries and are required to cease being the auditor after five years because of fee dependency. This will be problematic, as there may not be many firms that have the specific expertise to service these audit clients in these markets, having a direct impact on audit quality. Additionally, firms that could provide quality audits may be conflicted out for providing non-assurance services.

Accordingly, we believe in these circumstances where fees exceed 15% of total fees received by the firm from a PIE audit client, the audit committee/TCWG should make the determination based on the relevant facts whether the firm can continue to perform the audit of the PIE.

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

GTIL supports the exception provided in paragraph R410.20, however we recognize that there will be challenges and impediments in the application of the exception in certain jurisdictions.

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 taking into account the related application material, do you have views about the operability of the proposal?

GTIL believes competitive pressures in the market, and reputational risks of the professional accountant, help prevent firms from charging artificially, high prices that could lead to financial dependence on a client. However, we also believe it is important that any threats that may arise from proposed fees to an audit client should be analysed and properly addressed through the implementation of appropriate safeguards.

Accordingly, GTIL supports the proposed requirement in paragraph R410.25 regarding public disclosure of fee related information for a PIE audit client, however we only support disclosure of fees paid to the firm or network firm of the professional accountant. We believe it would be a very difficult task to obtain this information from firms outside the professional accountant's network, as the information is not always readily available.

We understand the Board's objective of wanting to achieve transparency for stakeholders to better assess the independence of the firm and its network firms issuing the audit opinion. However, we do not see any benefits to stakeholders of assessing fees of firm's outside the auditor's network, as the overall responsibility for the financial statement audit and monitoring compliance with the applicable independence standards, are the responsibility of the auditor issuing the audit opinion.

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 PIE 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?
- (a) GTIL believes the most practical and ideal way to disclose fees is in the audit report, including the footnotes to the financial statements. We believe disclosure in the audit report will provide an appropriate structure and consistency for disclosure, as there are requirements in professional standards and jurisdictions around fee disclosure that must be adhered to.
- (b) GTIL believes the information in the proposed provision to be discussed with TCWG is sufficient and has no additional suggestions.

Transparency of Fee-related information for PIE Audit Clients

13. Do you have views regarding whether the proposals could be adopted by national standard setters of 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.

GTIL understands that IESBA has engaged external, legal counsel on this matter and will await the legal opinion issued.

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 the 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?

GTIL supports the proposed consequential and confirming amendments to Section 905 and other sections of the Code as set out in the Exposure Draft.

As it relates to overdue fees from an assurance client, we would generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement.

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?

GTIL does not believe that there are any other areas within the Code that warrant a conforming change a result of the proposed revisions.

GTIL would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Peneycad', with a large, stylized flourish at the end.

David Peneycad – Global Chief Operating Officer
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