

4 June 2020

Stavros Thomadakis  
Chair  
International Ethics Standards Board for Accountants  
539 Fifth Avenue  
New York, 10017  
USA

Dear Stavros,

***IESBA Exposure Draft – Proposed Revisions to the Fee-related Provisions of the Code***

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revision to the Fee-related Provisions of the Code*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

We refer you to the NZAuASB's response to the IESBA's Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*, in which the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities. This recommendation could have a significant impact on the nature of the fees proposals. However, our comments on the fees proposals are made on the basis of the exposure drafts, as drafted, rather than an expected outcome that non-assurance services to audit clients that are public interest entities will be prohibited.

In general, the NZAuASB supports the proposals, however, while the NZAuASB is supportive of the objective of transparency of fee-related information, it is concerned that the proposal to require fee-related disclosures other than by the professional accountant is beyond the mandate of the IESBA. In this regard, the NZAuASB encourages the IESBA to pursue a solution through the International Accounting Standards Board. It is the view of the NZAuASB that disclosure of financial information is management's responsibility and should not be imposed on the auditor through the Code.

The NZAuASB's response to the detailed questions raised in the explanatory memorandum are set out in the attachment.

In formulating this response, the NZAuASB sought input from New Zealand constituents.

Should you have any queries concerning our submission please contact Sylvia van Dyk, Director – Assurance Standards, at [sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

A handwritten signature in black ink, appearing to read "April Mackenzie", followed by a horizontal line extending to the right.

**April Mackenzie**  
**Chief Executive**  
**External Reporting Board**

**Attachment: Submission of the New Zealand Auditing and Assurance Standards Board**

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

**Schedule of Responses to the IESBA's Request for Specific Comments**

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:**

The NZAuASB supports the premise underlying the proposals that threats to independence are created when fees are negotiated with and paid by an audit or assurance client.

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:**

The NZAuASB supports the requirement to determine whether the threats to independence created by the fees proposed to the client are at an acceptable level, before accepting an audit or other engagement for an audit client.

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 recognising 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 NZAuASB did not identify, through its outreach, any further factors relevant to evaluating the level of threats created when fees for an audit or other engagement are paid by the audit client.

While we are aware that some jurisdictions require an independent committee that advises the firm on governance matters that might impact independence. The existence of such a committee is not a requirement in New Zealand.

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:**

The NZAuASB supports the requirement in paragraph R410.6. Outreach indicated that, in New Zealand, the level of audit fee is not influenced by the provision of services other than audit to an audit client. This position is further supported by review of academic research in New Zealand.

- 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:**

In its response to the IESBA's Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*, the NZAuASB recommends the prohibition of all non-assurance services to audit clients that are public interest entities. Acceptance of that recommendation would mean that the application of the guidance in paragraphs 410.10 A1 to 410.10 A3 would be limited to audit clients that are not public interest entities.

In relation to the guidance included in proposed paragraphs 410.10 A1 – 410.10 A3, paragraph 410.10 A2 identifies the ratio of fees for services other than audit to the audit fee as a factor that is relevant in evaluating the level of threats to the auditor's objectivity when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.

The consideration of the ratio of fees for services other than audit to audit fee is, in the NZAuASB's view, overly simplified as it does not take into account the broader category of "audit related services", i.e., those services provided by the auditor that require audit knowledge. These services may be required, for example, by a regulator, to be performed by the auditor, or it may not make sense for another practitioner to perform them. Combining assurance services that are compulsory with non-assurance services may provide a misleading picture of the total other services provided to the entity. As noted in our response to question 11, it is the NZAuASB's view that a more granular consideration of fees is necessary than simply distinguishing between fees for audit and fees for services other than audit. We recommend that in evaluating the level of the threat, the factors in paragraph 410.10 A2 consider the ratio of combined fees for audit and "audit-related services" to other services.

- 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:**

The NZAuASB has concerns about the proposals in paragraph R410.14, in particular, the proposed threshold. The general reaction from the outreach performed is that five years seems long and 30% seems high. The NZAuASB recognises that there can be reasons for a high level of fee dependency, for example, when a new firm enters the market and is establishing itself. However, such a level of fee dependency would not be expected to last.

It is difficult to for the firm to maintain independence when there is a high level of fee dependency on an audit client. The NZAuASB is not convinced that setting timelines and establishing numerical thresholds is the best response to fee dependency as there may be qualitative factors that need to be considered.

If the IESBA determines that a numerical threshold is necessary, the NZAuASB recommends 15% for consistency with the requirements for public interest entities. It is the NZAuASB's view that high levels of fee dependency should be discouraged. The NZAuASB also recommends a reference back to paragraph 410.13 A4. The last three bullet points in this paragraph provide examples of ways to manage the client base.

**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:**

After five consecutive years where total fees from an audit client that is not a public interest entity exceed 30% of the total fees received from the firm, paragraph R410.14 (and for on-going fee dependency paragraph R410.15) would require the firm to determine whether either a pre- or post-issuance review is an acceptable safeguard, and if so, apply it. The requirement is unclear as to the type or extent of the review to be performed. In paragraph R410.17, the requirement for an audit client that is a public interest entity is clear that the review needs to be the equivalent of an engagement quality review. The NZAuASB recommends the requirement be made clear as to the extent of review required.

Further, if the firm determines that either a pre or post issuance review is not an acceptable safeguard, there appears to be no consequence. In this regard, the NZAuASB believes the consequence needs to be clear. If the review cannot be performed, i.e., safeguards cannot reduce the threat to an acceptable level, the firm should withdraw from the engagement.

**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:**

The NZAuASB supports the proposed action to reduce the threats created by fee dependency to an acceptable level in the case of an audit client that is a public interest entity.

The proposal does not address circumstances where an engagement quality review performed by a professional accountant who is not a member of the firm is determined not to be a safeguard to reduce threats to an acceptable level. In this regard, the NZAuASB believes that the requirement could be clearer, i.e., require an engagement quality review to be performed or, if this is not possible, require withdrawal from the engagement.

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

**Response:**

The NZAuASB agrees with the proposal to require a firm to cease to be the auditor if fee dependency continues after five consecutive years for an audit client that is a public interest entity.

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

**Response:**

The NZAuASB supports the exception in circumstances when there is a compelling reason, in the public interest, for the engagement to continue. We expect such circumstances to be extremely rare.

Sub paragraph (b) refers to a “pre-issuance review”. While we note that “pre-issuance review” is defined in paragraph R410.17 some of our stakeholders questioned whether this is intended to be a different type of review than the engagement quality review referred to in paragraph R410.17. As noted in response to question 7, the type of review required when an audit client is not a public interest entity is not specified. For clarity, the NZAuASB recommends consistent use of wording throughout Section 410 and that defined and described terms be added to the glossary.

**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:**

While the NZAuASB supports public disclosure of fee-related information, the NZAuASB has a number of concerns about the proposed requirement in paragraph R410.25.

The NZAuASB is concerned that a requirement to disclose fee related information extends beyond the mandate of the IESBA. Disclosure of financial information is the responsibility of the preparer of financial statements, not the auditor. In New Zealand, FRS 44<sup>1</sup> requires disclosure of the audit or review fee, and fees for all other services performed during the reporting period. In addition, the entity is required to describe the nature of other services. We urge the IESBA to work with the International Accounting Standards Board to enhance the transparency of fee-related information through enhanced disclosure by the entity.

The requirement is for the firm to be satisfied that the information is publicly disclosed in a timely and accessible manner. There is no consistent location for this information to be disclosed. The guidance indicates, if the information is disclosed by the entity, it could be in the financial statements, annual report or proxy statement. If disclosed by the firm, such information might be disclosed by the firm in a manner deemed appropriate for the circumstances. Not having the information available in a consistent location, for example, the entity’s financial statements, will make it difficult for users to find, and consequently, reduce its usefulness.

Further, if there is a conflict between the requirements of the financial reporting framework and the requirements in R410.25, which will prevail? It is not desirable for the auditor to be required to disclose information that the entity itself is not required to disclose in accordance with the applicable financial reporting framework.

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<sup>1</sup> FRS-44 *New Zealand Additional Disclosures* paragraph 8.1

The objective of providing fee-related disclosures is so that the users of the information can make their own determinations about the independence of the auditor. The ability to make good decisions depends on the decision usefulness of the information presented. The NZAuASB considers that more granular disclosures are necessary. Comparing the audit fee to all fees from the client does not give a clear picture as the auditor often provides additional services, that require independence and an audit level of knowledge, for example, the audit of regulatory reports required by the regulator. These “audit related” services need to be considered separately from other services. Additionally, it may also be useful to disclose fees paid to other professional accountants for both assurance and non-assurance services. Such information would then give a fuller picture of the total spend by the entity for assurance and non-assurance services and where any other close relationships might be.

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

**Response:**

Public transparency of fee-related information is important as it allows users to form their own conclusions as to independence. However, as noted in response to the preceding question, the NZAuASB considers that it is important to distinguish between fees for audit/assurance and related services from fees for other services, as well as fees paid to other firms for assurance and non-assurances services.

The ability of users to make decisions depends on the “decision usefulness” of the information presented. Fuller disclosures provide for better decision making.

It is good governance practice for those charged with governance to be aware of the services the auditor performs for the entity. The NZAuASB is also of the view that it is the responsibility of management, rather than the auditor, to provide such information to those charged with governance.

**13. Do you have any views regarding whether the proposals could be adopted by national standard setters of IFAC member bodies (whether or not they have the 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 organisations, regulators and competition authorities.**

**Response:**

We have no comments on this matter.

**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:**

The NZAuASB is supportive of the proposed consequential and conforming amendments.

While payment of overdue fees from an assurance client prior to issuance of the report is certainly desirable, the NZAuASB considers overdue fees need to be considered on a case by case basis.

**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:**

The NZAuASB has not identified any other areas within the Code that may warrant a conforming change.