

June 4, 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: January 2020 Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code*

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Proposed Revisions to the Fee-related Provisions of the Code* (“*the Exposure Draft*”).

CPA Canada is the national body of Canada’s accounting profession, with more than 217,000 members both at home and abroad. It conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally.

The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between the provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

We are generally supportive of the intent of the proposed revisions to strengthen the fee-related independence provisions, however, we do have concerns with some of the proposed changes and have included suggestions for consideration. Through our consultation efforts, we received views that varied regarding the specific questions for comments and we have referenced these perspectives where it may be helpful for IESBA to be aware.

We appreciate the coordination efforts undertaken with the IAASB in the development of the proposals contained in the Exposure Draft and the provision of the webinar to provide additional context and address questions.

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

Request for Specific Comments:

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)?**

We 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 also concur that an inherent risk exists whenever the party responsible for the subject of an examination directly pays the examiner.

Recognizing that no change is being proposed to the generally accepted client-payer business model, we agree that consistent compliance with professional standards, including ethics requirements, is an important factor in mitigating threats.

- 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?**

We support the proposed requirement in paragraph R410.4. During our consultation, however, we did receive some feedback that possible implementation challenges in complying in an international context may arise. For example, firms and network firms may be located in different jurisdictions, national standards may vary and systems and processes may not exist or be equipped to identify, reconcile and resolve, for all audit clients, the precise timing and engagement acceptance issues that may arise.

- 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?**

We generally support the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence as an example of relevant conditions, policies and procedures. However, we received consistent feedback that it may not be feasible to implement for many firms based on their size and structure. We believe that acknowledging this likely impracticality for many firms when citing an independent committee as an example would be appropriate.

We also believe the inclusion of application guidance with examples of possible governance matters that would impact the firm's independence would be helpful for all practitioners.

Through our consultation, we did receive feedback that some of the factors listed in 410.4A2 as relevant to evaluating the level of threats created are actions that might be better identified as safeguards in addressing such threats. For example, an external review of the quality of the firm's audit work was noted as being a potential safeguard.

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?**

We 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. However, we believe this requirement will be difficult to enforce in practice because whether the level of the audit fee was *influenced* by the provision of other services will be a subjective evaluation. Application guidance as to how a firm can demonstrate that the level of the audit fee has not been influenced by the provision by the firm or a network firm of services other than audit to the audit client may therefore be helpful in this regard.

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?**

We are supportive of the guidance as proposed in paragraph 410.10 A1. We did receive some feedback that possible implementation challenges in complying in an international context may arise if systems and processes do not already exist or if they are not equipped to capture fees for services other than audit charged by network firms for all audit clients.

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?**

We generally 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.

However, we did receive mixed feedback from our consultation about the proposed threshold. Some supported it as presented in the Exposure Draft while others recommended that the arbitrary amount of 30% is too high and that five consecutive years is too long and should be three years, perhaps, with criteria considering, for example, whether the firm is new and growing or established and mature.

For those seeking a lower threshold, the suggestions resulted from a general concern that fee dependency could pose a greater self-interest threat to small and medium practices regarding their non-PIE audit clients due to the potential relative impact and their capacity to sustain the sudden loss of a significant client. In suggesting a lower threshold, it was also observed that the proposals do not require that a firm resign from a non-PIE audit if fee dependency continues beyond the threshold timeframe.

As referenced in the Exposure Draft, we believe it will be beneficial that IESBA consider reviewing the thresholds ultimately chosen after a period of implementation experience and following the outcome of the PIE project to assess whether any adjustments might be appropriate.

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 proposed actions in paragraph R410.14 received mixed response and we believe the provision can be improved. Considering the comments above, some were supportive only if the threshold was modified to less than 30% and three years. In our review, R410.14 (a) was regarded as a preferred action over R410.14 (b) such that (b) should only be utilized if it is not feasible to apply (a) and that application material should be developed to explain when (a) may not be feasible. Additionally, we received feedback that the requirement should be strengthened and more directly stated to carry out the actions.

In reviewing the proposed actions, questions arose about the nature and practicality of the review to be carried out by a professional accountant in (a) and also whether the nature of the review to be carried out by a professional accountant or professional body in (b) is the same. Depending upon the size of firm, whether a member of a network of firms or not and the timing involved, some observed that practical challenges may arise in obtaining a review prior to the audit opinion being issued. In considering (b) it was recognized that, depending upon the jurisdiction, a professional body review may not be a possible option.

We also received feedback that “total fees from an audit client” should be clarified for the reader as to whether total fees include those received by network firms in addition to the firm. We believe the intent from paragraph 68 in the Explanatory Memorandum is that the use of “the total fees received by the firm from an audit client” or something similar would make this clearer in R410.14.

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?**

We generally support the proposed action in paragraph R410.17 but received similar feedback as noted above in respect of R410.14 including that “total fees from an audit client” should be clarified for the reader as to whether total fees include those received by network firms in addition to the firm. The use of “the total fees received by the firm from an audit client” or something similar would make the intent clearer in R410.17. Additionally, we received feedback that the requirement should be strengthened and more directly stated to carry out the action, provide additional guidance as to other types of safeguards that might be applicable and explain the result if the threats are not reduced to an acceptable level with the proposed action.

- 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 with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after 5 consecutive years in the case of a PIE audit client.

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

If allowed in a jurisdiction, we would be generally supportive of the exception recognizing, however, a professional body review may not be a possible option.

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?**

We support the notion of public disclosure of fee-related information for a PIE audit client. However, through our consultation, we received consistent feedback including concerns about this being proposed as an ethical requirement of firms and regarding its operability.

Those who were concerned about this proposed ethical requirement of firms for the public disclosure of fee-related information for PIE audit clients advised that the requirement should be made more appropriately of the PIE by its relevant regulator.

This was noted as better aligning the requirement to a regulator who can ensure PIE compliance and additionally, for those jurisdictions where clients have a right to professional secrecy, the requirement for public disclosure would be appropriately aligned with the PIE.

In terms of operability, concerns raised included professional secrecy where applicable, an ethical requirement of firms for fee related disclosure would need to be approved by the audit client and the possible locations suggested in 410.25A3(a) are documents that belong to the audit client. It was also noted that the proposed material does not address the actions that the firm would take when a client disagrees with the transparency and the related confidentiality issues that may arise.

Additionally, in reviewing R410.26, we were not clear what “an explanation, to the extent possible, of the qualitative significance of the fee information which is not available” means and how this should be evaluated by a firm. Clarification within the requirement and/or the provision of guidance material would be beneficial.

- 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?**

We do not have suggestions as to what IESBA should consider as other possible ways to achieve transparency of fee-related information for PIE audit clients.

Generally, we believe the information needs of TCWG and the public should be considered separately and established in order that information that is provided will be effective. Feedback received through our consultation noted that fees are just one factor of what may be needed, and that TCWG can exercise their responsibilities to identify the information necessary for carrying out their responsibilities.

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.**

We are not aware of anti-trust or anti-competition laws that would prevent adoption of the proposals.

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?

We support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in the Exposure Draft.

Regarding overdue fees from an assurance client, we would generally expect the payment of such fees should be required before the firm issues its report.

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 within the Code that may warrant a conforming change as a result of reviewing the proposed revisions.

We thank you for the opportunity to comment on this Exposure Draft and we appreciate that further revisions to these proposals may result through the feedback provided by stakeholders and as IESBA continues its close coordination regarding this and other related matters with the IAASB.

Yours truly,



Jamie Midgley, FCPA, FCA
Chair, Public Trust Committee