

International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York  
NY 10017  
USA

29 May 2020

## **Comment Letter Relating to the Exposure Draft on Proposed Revisions to the Fee-related Provisions of the Code**

Dear Board Members,

1. The Irish Auditing and Accounting Supervisory Authority ('IAASA') appreciates the opportunity to comment on the IESBA's ('Board') consultation on Proposed Revisions to the Fee-related Provisions of the Code.
2. In Ireland, the IESBA Code forms the basis for the Ethical Standard for Auditors (Ireland) issued by IAASA as well the code of ethics of each of the prescribed accountancy bodies. IAASA clearly sees an interest in enhancing the content of the IESBA Code, as it constitutes the basis for the ethical requirements with which auditors and accountants in Ireland are required to comply.

### **General comments**

3. IAASA strongly supports the IESBA's effort to enhance the fee-related provisions of the Code. However, we have identified a number of areas, as detailed below, where we believe the provisions of the Code could be further enhanced and which should be considered by the Board.

### **Definitions**

4. We note that the fees-project is linked to two other projects, i.e. the Proposed Revisions to the Non-Assurance Services ('NAS') Provisions of the Code and the Definitions of Listed Entity and Public Interest Entities ('PIEs'). Regarding the definitions of listed entity and PIEs, IAASA is bound by the definition of PIEs in EU Regulation Number 537 of 2014 ('the EU Regulation'). We draw the Board's attention to the fact that, for us, it is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context

Irish Auditing & Accounting Supervisory Authority

Willow House  
Millennium Park  
Naas, Co. Kildare  
W91 C6KT

T +353 (0) 45 983 600  
E [info@iaasa.ie](mailto:info@iaasa.ie)  
[www.iaasa.ie](http://www.iaasa.ie)

Chair Mr Martin Sisk **Members** Ms Mary Burke, Mr David Devlin, Ms Etain Doyle, Mr David Hegarty, Ms Nicole Lappin (UK), Ms Aisling McArdle, Ms Kathleen Redmond, Mr Kevin Prendergast.

IAASA is a company limited by guarantee. **Registered Office** as shown at left. **Company No.** 412677

in order to facilitate application of the IESBA Code in Ireland and other EU/EEA Member States.

### **Proportion of Fees for Services Other than Audit to Audit Fee**

5. The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a “large proportion of fees”. This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.
6. We understand that the scope of the Code is different from the EU Regulation, including the fees charged by the network firms, but not taking into account, for non-listed PIEs, the fees charged to the audit client’s parent undertaking<sup>1</sup>. In fact, in the EU Regulation this calculation is performed at the level of the audit firm or the statutory auditor in relation to its audit client and we believe that it is the right level to address the self-interest threat in order to set a threshold beyond which the provision of NAS is not allowed. We invite the Board to reconsider ED paragraph 410.10.A1 to clarify the scope and consequences of the evaluation.

### **Total Fees - Fee dependency for PIE audit clients**

7. Paragraph R410.17 of the exposure draft (‘ED’) applies to audit clients that are PIEs and pursues the same goal as article 4(3) of the EU Regulation, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Ireland and Europe and could lead to confusion for auditors when deciding which provisions should be applied.
8. We hereafter list the four main differences we have identified between the Code and the EU Regulation, on which we ask the Board to further align the ED.
  - The reference period is different, two years for the Code and three years for the EU Regulation.
  - The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the EU Regulation for the calculation of the threshold only applies to the PIE itself and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation’s scope but not the other and vice versa.

---

<sup>1</sup> The Code definition of audit client is: “An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.”

- In the ED, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard.
- The ED requires only one potential safeguard i.e. the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the engagement quality review, where appropriate.

9. ED paragraph R410.18 addresses the joint audit situation and we do not believe that a joint audit can replace an engagement quality review.
10. In Ireland and other EU states, ED paragraphs R.410.20 and R.410.24 (c) are not applicable even in exceptional circumstances, as EU rules do not permit authorisation for an audit firm to continue as an auditor after 5 consecutive years if the total fees received each year from a PIE audit client exceed 15% of the total fees received by the firm.

#### **Fee dependency for audit clients that are not PIEs**

11. The current proposals could be further enhanced by noting in Paragraph 410.14 that, where appropriate, safeguards other than an independent review should also be applied.
12. We request the Board to re-consider the 30% fee dependency limit specified in Paragraph R410.14 of the ED with regards to audit clients that are not PIEs, as this represents a significant proportion of a firm's income. Further, we do not consider it appropriate that a firm may continue to provide audit services on an indefinite basis where there are significant fee dependency issues, as would appear to be permitted by Paragraph R410.15.
13. Consistent with the view expressed in paragraph 9 above, with regards to Paragraph R410.16 we do not consider that a joint audit can replace an independent review of the audit work as safeguard in cases of fee dependency.
14. We request the Board to consider the insertion of application material to clarify how a firm might deal with a situation where no appropriate safeguards are available.

#### **Fee dependency – all audit clients**

15. In addition to the possible safeguards listed in paragraph 410.13.A7 to address fee dependency, the firm could re-allocate the engagement to another partner, office or part of the firm.

I hope that you find the comments useful. Please do not hesitate to contact me if you have any questions.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kevin Prendergast', is written above a solid horizontal line.

**Kevin Prendergast**

**Chief Executive**