

Ref #763962

9 June 2020

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA'S EXPOSURE DRAFT, *PROPOSED REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE*

In response to your request for comments on the IESBA's Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code* (the Exposure Draft), attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting

GENERAL COMMENTS

SAICA supports the exposure draft and applauds the effort of the task force in reaching this milestone. The topic of audit fees has long been a topic of discussion in South Africa.

As a general comment we wish to raise the issue of clarity in the terminology. The Exposure Draft uses the term “audit fee”, which refers to the fees for audits and reviews, and “fee for audit”, to fees only for audit engagements, and not including independent reviews. Paragraph 410.5A1 also refers to “whether for audit or other services”. There is confusion as to what engagements “other services” refers to – if this includes independent review, other assurance services, or other non-assurance services.

RESPONSE TO 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:

Yes, 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. This threat may occur if fees are significant to a partner and / or to the firm or network firm itself.

In addition, if the fee is so high that the firm would be at risk of losing a large proportion of revenue and profit, the firm or partner will be conflicted between wanting to retain the business and profit, against the potential loss of the client. This might impair their objectivity and independence when exercising professional judgement. Safeguards would thus need to be applied.

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:

SAICA supports the requirement, when making this determination, so as to ensure no undue influence has been exerted on the firm / network firm before accepting the engagement.

In addition, threats should be considered at quantitative and qualitative levels. The IESBA should provide guidance on the qualitative and quantitative factors to consider in assessing whether the threats are at an acceptable level.

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?*

Response:

Although SAICA supports recognising as an example of relevant conditions, policies and procedures the existence of an independent committee, we are not sure about the practical application or implementation of such a committee to SMMEs. We suggest that the term 'appropriate reviewer' in 410.5 A3 be elaborated on, as to whether this includes both internal and external reviewers. "Reviewer" is a term used for a person conducting independent reviews as defined in International Standards for Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*, and we are concerned with the fact that there might be confusion with the use of this term in the two different contexts.

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:

SAICA agrees that the audit is a fiduciary function and professional judgement needs to be shielded from external factors that may give rise to threats of bias. The audit fee must be computed based on reasonable time required, degree of skill and expertise and the nature and extent of required audit work, the level of audit risk, and provide sufficient evidence to justify an opinion on the reasonableness and appropriateness of the financial position and performance of the client. Further to this the application material allows for the auditor to benefit from the experience of carrying out non-audit duties, through cost savings.

It is however important to also note the fact that "audit fee" would include fees for independent reviews. This might create a bigger threat to smaller firms, where they provide accounting and other services as well as the independent review. The proportion of other fees could be quite significant versus the independent review fee and smaller firms would need to take cognisance of this and might need to reconsider their business models.

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:

SAICA supports the guidance, as the firms and network may be influenced by the level of income generated by non-audit work carried out. When significant revenue is being generated the client will be able to pressure the firm based on the level of fees paid to the firms, and even where a firm is objective the public perception may call into question this objectivity in the absence of adequate safeguards. If the client can significantly influence the related entities the same logic also applies.

It is however important to note the fact that “audit client” would include independent review clients. This might create a bigger threat to smaller firms, where they provide accounting services as well as performing the independent review.

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:

As small firms may only have one or two audit clients and this is likely to impact them, the idea of a pre- and post-review by a professional accountant sounds like a reasonable accommodation and safeguard. In our view this would be a feasible approach and this could strengthen the Code of Professional Conduct and ensure that audit objectivity is not compromised. This safeguard could also assist in managing external perceptions. We would recommend the word “independent” be added before professional accountant to indicate the safeguard is to be carried by an associate or related party who is a professional accountant that is not in the firm.

We would like to request clarity on the use of “professional accountant” as in paragraph 410.5A3 an “appropriate reviewer” is used. What is the difference between the use of “appropriate reviewer” or “professional accountant”?

It is however important to also note the fact that “audit client” would include independently reviewed client. This might create a bigger threat to smaller firms, where they provide accounting services as well as the independent review of annual financial statements. Especially where a firm is starting up, their fees from one client might be excessive during the start-up period.

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:

SAICA supports the proposed actions in principle, however in our view it may be costly for all firms to implement. If an auditor is starting an audit firm or the firm has reached a point where growth is not possible / probable, this safeguard may become costly for the firm / partner to implement.

For sole practitioners and small firms, it would assist if more application material on when and how the 30% threshold and 5-year rule might be communicated to a client be provided. We note the safeguard of having a regulator review the audit work or professional bodies review the independent review work. We are not sure whether the professional bodies in South Africa are geared to assist with such a request to review the audit work and if they have the required resources.

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:

SAICA supports the proposal, however the reference needs to be updated to ensure that the professional accountant outside of the firm is independent i.e. not a related party.

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?*

Response:

SAICA supports the proposal and in our view we believe 5 years is sufficient time to address the dependency issues. Given that these are public interest entities the requirement is reasonable.

We suggest that the Engagement Quality Control Review (EQCR) is performed as a mandatory requirement for each year after the second year where the 15% is occurring, up to and including the final year before rotation requirements apply.

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

Response:

SAICA supports the exception, as compelling reasons might exist for the particular firm to continue with the engagement. The professional accountant would need to be independent and unrelated to any partners in the firm.

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:

SAICA supports the proposal in principal. The requirement and guidance appear reasonable; however, PIE firms would be best placed to identify any challenges experienced when implementing the provisions. The other challenge is that some PIE audit clients might not want to make public disclosure of fee-related information. We recommend that the IESBA include guidance on how a refusal by the client to disclose information should be dealt with.

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?*

Response:

- (a) SAICA believes that the application material appears adequate. The term "independent reviewer" is the same as "independent reviewer" as used in the International Standard Review Engagement (ISRE) 2400, *Engagements to Review Historical Financial Statements*, and we would suggest rephrasing the term. If an "independent review" is used as a safeguard, we believe that a representation or statement that the review was carried out by a suitably qualified and independent professional firm/accountant should be communicated to those charged with governance, not all clients report the fee-related information in their annual financial statements.
- (b) SAICA believes more guidance is needed on how the fee-related information should be disclosed and whether this is applicable to both PIEs and non-PIEs.

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.

Response:

As the material is not recommending the setting of audit fees but rather the disclosure of fees we do not foresee any problems. The disclosure of audit fees charged or charges for services is not anti-competitive in and of itself.

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:

SAICA supports the proposed consequential and conforming amendments. We would generally expect a firm to obtain payment of the overdue fees before issuing its report. However, in practice, we are of the view that 100% payment of overdue fees is unlikely to occur in all cases.

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:

In our view there are no other areas that warrant conforming amendments.

GENERAL COMMENTS

- *Those Charged with Governance, including Audit Committee Members – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight. This includes small businesses where a single owner manages the entity and also has a governance role.*

Response:

No comments.

- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.*

Response:

SAICA believes that the threshold and safeguards to be implemented will have an effect on SMEs and SMPs. The dependency on a specific client holds not only threats regarding the Code of Professional Conduct but also to the business risk of an audit firm. It seems that the 30% for any firm is already a material business risk in itself. We suggest that IESBA may keep the threshold at 30%.

On the other hand, The costs of such a review can be significant to SMEs. There are uncertainties on how the audit clients may react to another professional accountant outside of the audit firm reviewing the audit performed. As a result, we are not sure of the extent of the impact that this suggestion will have on many SMEs.

- *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*

Response:

No comments.

- *Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.*

Response:

No comments.

- *Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.*

Response:

No comments.