

15 June 2020

Mr Ken Siong
Senior Technical Director
International Ethics Standards Board

KenSiong@ethicsboard.org

Dear Mr Siong

Proposed Revisions to the Fee-related Provisions of the Code

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the *Proposed Revisions to the Fee-related Provisions of the Code*.

We do not support the direction of the proposed amendments (apart from the disclosure of audit fees). We consider that proposals should be principle-based and not rule-based. The proposal should be made in the public interest and not in the interest of the auditing firms to continue to provide non-assurance services to audit clients within judgemental boundaries.

Furthermore, sixty-four pages of rules, recommendations, and application guidance will make the proposals costly to implement and difficult to comply.

We strongly recommend that the proposals be withdrawn and simpler principle-based proposals be advanced with the emphasis on the public interest for an independent audit to be performed.

Our comments to the questions posed are attached.

If you would like to discuss our comments, please contact me or our technical advisers Sonya Sinclair (sonya@ecorac.com.au) or Colin Parker (colin@gaap.com.au), GAAP Consulting.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Technical
Institute of Public Accountants

c.c. AUASB and APESB

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix Proposed Revisions to the Fees of the Code – Comments on Specific Questions

Evaluating Threats Created by Fees Paid by the Audit Client

Q1: 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)?

Yes, we agree there is an inherent risk associated with the audit client-payer model and where non-assurance services are provided by the audit firm.

The risks are heightened in audit tendering (actual or threatened); and where additional audit effort is required by increased client risks and/or new standards (accounting and/or audit) and client will not agree to an increased audit fee.

We believe that the *IESBA* should introduce new ethical requirements to make preparers – professional accountants in business – accountable for the adequacy of fees paid to auditors.

Q2: 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?*

While we find some merit in the proposal, we note that it will require audit firms to have systems in place to identify and resolve such issues, and it may be difficult for audit firms to apply and comply in practice.

An alternative is to ban all non-assurance services for public interest entities. This would also be seen to acting in the public interest and protecting/enhancing audit independence at the same time. Furthermore, audit fees determination would not be influenced by the prospect of the firm of obtaining additional revenue for other service.

Q3: 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 note that answers to the question posed would add to complexity of decision-making by audit firms. We would refer the *IESBA* articulate principles rather than continue to 'enhance' rule making complexity.

Impact of Services Other than Audit Provided to an Audit Client

Q4: 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?

Yes, we agree with the proposal, however the continued provision of non-assurance services within the proposals undermined the implicit principle.

We strongly recommend that the cost saving paragraph 410.6 A2 be removed as it undermines the principle paragraph R410.6. Cost savings to the firm are an influence.

Proportion of Fees for Services Other than Audit to Audit Fee

Q5: 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 agree with the guidance proposed. Further guidance could be provided over what level of fees for services other than audit compared to the audit fees would be considered a higher threat.

Fee Dependency for non-PIE Audit Clients

Q6: 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?

No, we with disagree with the 30 per cent threshold for the threat assessment and consider that that it should be a lower threshold of 10 per cent.

Q7: 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?

Yes, we agree with the proposed actions. But note the actions are rule based.

Fee Dependency for PIE Audit Clients

Q8: 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?

The proposed course of action is option ‘engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements (“preissuance review”) *might* be a safeguard to reduce the threats to an acceptable level’ (emphasis added). There is not requirement per se. This paragraph needs to be clarified as to the actions that need to be taken.

Q9: 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?

A simpler approach would be for non-assurance services to be banned and therefore the issue of fee dependency would not arise.

The proposal adds another degree of complexity for audit firms, and another rule.

Furthermore, we disagree with the proposed five-year term and consider that two year-term would be more appropriate.

Q10: Do you support the exception provided in paragraph R410.20?

We disagree with the exception. If the principle is sound, there should be no need for an exception. Furthermore, it would create an additional level of complexity in the terms of the involvement of an accounting body or a regulator. Also, inconsistent decision-making could occur in different jurisdictions, setting unwarranted precedents.

Transparency of Fee-related Information for PIE Audit Clients

Q11: 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?

The proposals allow too much flexibility, the audit fee should be either disclosed in the financial statements or the auditor's report.

Q12: 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?*

Disclosure of fees should also include fees paid to other accounting firms for services provided to the audit client which would provide a better picture over total fees paid to other firms compared to audit fees.

Anti-Trust and Anti-Competition Issues

Q13: 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.

There is no impediment to the proposals being adopted in Australia.

Proposed Consequential and Conforming Amendments

Q14: 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?

Whilst you would generally expect a firm to obtain payment of overdue fees before issuing the report for an assurance engagement, it should not stop the assurance practitioner from issuing the report.

Q15: 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?

No further comments.