

10 June 2020

Mr K Siong
IESBA Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017, USA

Submitted electronically to kensiong@ethicsboard.org

Dear Mr Siong

Comments on the Exposure Draft: *Proposed Revisions to the Fee-related Provisions of the Code*

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard-setter in South Africa. Its statutory Committee for Auditor Ethics is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors. One of the IRBA's statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby promoting investment and employment in South Africa.

The IRBA adopted Parts 1, 3, 4A and 4B of *the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*. This was prescribed in November 2018 as the Code of Professional Conduct for Registered Auditors (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against registered auditors.

We appreciate this opportunity to comment on the IESBA's Exposure Draft: *Proposed Revisions to the Fee-related Provisions of the Code* (Exposure Draft). Our comments are presented under the following sections:

- A. General Comments;
- B. Request for Specific Comments; and
- C. Editorial Comments.

We have also noted the proposed amendments and have initiated due process procedures in South Africa for the possible adoption of these amendments when finalised by the IESBA.

Kindly e-mail us at ivanker@irba.co.za, if further clarity is required on any of our comments.

Yours faithfully,
Signed electronically

Imran Vanker
Director: Standards

A. GENERAL COMMENTS

1. We support the IESBA's proposed amendments relating to fee provisions in the IESBA Code. We appreciate the focus on increasing transparency and communication with those charged with governance (TCWG) in an effective and efficient manner.
2. We appreciate the extension of the comment deadline. In the midst of the disruptions caused by the COVID-19 pandemic, the extension has provided us with time for consultation and reflection.
3. We acknowledge that this project requires coordination with the International Auditing and Assurance Standards Board (IAASB), and also note the efforts of both Boards to ensure that these provisions are implementable.
4. We acknowledge the coordination between the IESBA Non-Assurance Services (NAS) Project and the current IESBA Fees Project. Such coordination is necessary to retain the quality and consistency that is a hallmark of the restructured and revised IESBA Code. However, we have noted a significant difference in approach between the two projects that may require reconsideration. The IESBA NAS Project distinguishes between assurance and non-assurance services, while the IESBA Fees Project refers to audit and non-audit services. While we understand the reason for the differences in approach, we question the value and utility of these distinctions, and highlight the potential for confusion in practice.
5. In South Africa, many regulated entities require the auditor, in conjunction with the statutory audit, to also perform assurance engagements and related services, such as agreed-upon procedure engagements, for the audit client. Consequently, many have expressed a view that such required non-audit fees should be excluded from calculations included in the proposed amendments because these services are performed by the auditor pursuant to fulfilling legislative requirements, as opposed to contractually agreed upon non-assurance services with an audit client.
6. We note that the exposure draft does not include the anticipated effective date of the proposed amendments. The value and timeliness of this project should not be overshadowed by the change management implications for firms. We would encourage the IESBA to consider an effective date as soon as reasonably possible.
7. We acknowledge that responding to the call from relevant stakeholders to strengthen the fee-related provisions in the IESBA Code has resulted in some rules-based provisions, instead of principles-based provisions. However, this comes with its own difficulties and challenge of usability. The IESBA implementation guidance that accompanies the final provisions will require a consideration of the practical implications.
8. The concepts of "significance" (e.g. **R410.9 (b)**, **R410.12** and 410.13 A3), "appropriate reviewer" (e.g. 410.5 A3, 410.9 A3), "external review" (410.4 A2) and the significant complexity and judgement involved in the calculations could impair the effectiveness of the provisions.
9. The Covid-19 pandemic has already had an effect on the audit environment. Firms should apply extra scrutiny to non-compliance matters that a client may attribute to the fallout from Covid-19. In specific regard to fees, if the client clearly and desperately needs a discount on audit and / or non-audit fees, firms should rather offer payment plans (i.e. to allow the client to pay the relevant fees over a period of time) as opposed to issuing discounts on agreed fees, which discounts may have the effect (whether desired or not) of distorting the audit to non-audit fee ratio.

B. REQUEST FOR SPECIFIC COMMENTS

Question 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)?

10. Yes. We support the proposed additions relating to the inclusion of the self-interest threat and the possible intimidation threat to independence created by a fee negotiation between the audit firm and the client. We appreciate that this inclusion closely follows the conceptual framework.
11. During our consultations, it was agreed that this approach was well understood by and acceptable to many stakeholders. However, there have been many discussions which continue to challenge the current funding model of audits where the auditee pays the firm to be audited, without the presence of an intermediary, and whether over time new models could be developed.
12. We do question whether these additions are adequate to create awareness or to lead to meaningful changes in behaviour among auditors, audit firms and clients (410.3 A1).
13. We also note the placement of 410.3 A1 and propose that it be moved under the subheading "Introduction", as it refers to all provisions in Section 410.

Question 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?

14. Yes. We support the requirement for the firm to consider threats to independence created by fees. We agree that this assessment be done before the firm or network firm accepts the audit or any other engagement, as well as that it be re-evaluated during the period of the engagement.
15. Practically, this may be difficult to assess as the audit engagement is for a specific period, while non-audit engagements may continue over several years. The IESBA implementation guidance that accompanies the final provisions will require a consideration of the practical implications.
16. Clarification would be required as to whether these fees refer to fees billed, fees to be billed, or fees paid and if this calculation requires a proportionate method. This will ensure consistency and usability of the requirement. Some examples illustrating the application will be useful.

Question 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?

17. Yes, with conditions. We support the inclusion of these provisions. We appreciate that seven factors have been included in the revisions. This will ensure that the requirement is consistently applied.
18. Clarification is required with regard to the following bullets:
 - “Whether there is external review of the quality of the firm’s audit work.” While it is clear in the explanatory material, we suggest that the wording in the IESBA Code should clarify that this review may be performed by an individual from either within or outside the network. We question, however, whether this is a sufficiently appropriate safeguard, as the threat faced by the firm and the individuals within the network firm may be a similar self-interest threat.
 - “The level of fees and the extent to which they have regard to the resources required, considering the firm’s commercial and market priorities and position.” The phrase “firm’s commercial and market priorities and position” has not previously been used in the IESBA Code. We question whether this will be understandable.
 - “The significance of the client, for example, to the firm, network, partner or office.” Clarification is sought on whether this consideration is in relation to the fee (financial significance).
 - “The nature of the client, for example, whether the client is a public interest entity.” It is unusual to list a public interest entity consideration as a factor. Is this not already covered in 300.7 A3 of the IESBA Code?

Question 4

Impact of Services Other than Audit Provided to an Audit Client

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?

20. Yes, with clarifications. We agree with the introduction of **R410.6**, but we request further clarification. It is unclear what action relating to this requirement would be required; therefore, we question the robustness of this requirement. In relation to the proposed wording, it would be helpful to understand better what is meant by “to be influenced by”.
21. As mentioned above, this requirement requires practical consideration and clarification. There may be difficulties in assessing or matching the level of fees and the effect of non-audit fees. An audit engagement is for a specific period, while several non-audit engagements may extend

over several years. The calculation of the fees will also need closer attention and clarification (i.e. will this calculation be done on fees billed, fees paid or on a proportionate recognition method.).

22. Additionally, in a large network this consideration will include several teams across different jurisdictions. Thus, audit firms will need to ensure that all information is available when making this assessment.
23. We can reasonably expect the inverse to hold true as well, i.e. the firms shall not allow the non-audit fees to be influenced by the provision of the audit fee by the firm or a network firm.
24. It would be interesting to understand how a firm will comply with **R410.6** and the achievement of cost savings as envisioned in 410.6 A2. It would seem reasonable that a firm would need to document either in the proposal or acceptance consideration where this determination was made.
25. We encourage the IESBA to strengthen **R410.9** relating to contingent fees by enforcing a prohibition of contingent fees on non-assurance services to an audit client. **R410.9 (a) – (c)** are unnecessarily confusing, with the inclusion of “materiality” provisions.

Question 5

Proportion of Fees for Services Other than Audit to Audit Fee

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?

26. Yes. We support the inclusion of the firm consideration of the proportion of fees for services other than audit to audit fee. There has been great interest in this from the public and regulators. Information around this assessment is not readily available, which makes it difficult to adequately evaluate whether there is a threat to independence.
27. We would have appreciated a requirement with regard to this proposal. In previous comments to the IESBA, we encouraged that a threshold approach be used for this particular threat.
28. It is reasonable to expect that the payee relationship would give rise to the workings of supply and demand from the specific client. However, while this may be true, the requirement to remain independent both in appearance and in mind remains the key requirement of the audit firm.
29. There is a strong concern that non-audit engagements will include assurance and related services. In South Africa, many regulated entities require the auditor to perform assurance services and agreed-upon procedure engagements. If these are the only services provided to the client, the audit firm will still be subjected to an evaluation. This information may be misunderstood and give the wrong impression when presented to TCWG.
30. We have noted that the factor included in 410.10 A2, bullet four, states “... the qualitative and quantitative significance of the client to the firm and the network”. More thought should be given regarding whether this consideration is the same as that in bullet six of 410.4 A2.

Question 6*Fee Dependency for Non-PIE Audit Clients*

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?

31. Yes, with concerns about how it can be improved. The proposed threshold for non-PIE clients is subjective and complex. The construct of this requirements is very different from **R410.20(b)**. This may prove a challenge in application and understandability.
32. Additionally, the high threshold of 30% make it less likely to bring about the change envisioned. The time period (5 years) envisioned is too long, rather if there is a fee dependency by the audit firm, we would hope to see more being done in the shorter term. At 30% per annum, over a period of five years, the firm could earn at least 150% of annual fees from one client before a consideration of the threats and safeguards. More can be done to address the public interest concerns here.
33. Additionally, these provisions do not differentiate between the maturity of the audit firm. This requirement may create an additional burden to new audit firms, especially SMPs.
34. There have been questions as to whether the total fee includes all fees received by the firm, or total audit fee. As divisions within a firm are sometimes evaluated as standalone entities/departments, would it not be reasonable to evaluate the audit fee received from the non-PIE audit client against total audit fees.
35. Clarity is required as to whether this provision applies to the firm or network firm; and also, to understand better the reason why this is not applied at both levels.

Question 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?

36. No. We question whether a “review by a professional accountant who is not a member of the firm” is sufficiently robust. Additionally, questions have been raised on whether this review is the same as a quality review, or if this includes additional considerations.
37. Further, as this threat is at a firm level, we question whether having a review performed by an individual within the network firm adequately reduces the threat to an acceptable level.

Question 8*Fee Dependency for PIE Audit Clients*

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?

38. Yes, with concerns about how it can be improved. While we agree with the proposed revisions and the tightening of **R410.17**, we note that this paragraph has been subject to much abuse in the past, and the clarified wording does make this more understandable.
39. We would appreciate a further consideration of the wording “are likely to represent” as it allows for an unreasonable level of subjectivity.
39. However, the safeguard of an engagement quality review, and the possibility of the reviewer from within the network firm, does not seem like a sufficiently robust safeguard to be applied to a PIE client, compared to the threat posed by the fee dependency.
40. We note that **R410.18** does require an engagement quality reviewer similar to the requirement of **R410.16**. We would appreciate if this additional review consideration is added.
41. A similar analysis has been included in the [IRBA Feedback Report: Audit Quality Indicators Report 2019](#). It is interesting to note the analysis for South Africa on pages 7-8.

Question 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?

42. Yes. We are supportive of the proposed **R410.19**. We would also suggest that this be closely monitored with TCWG on a year-to-year basis to allow for changes in audit firms, as required.
43. While there is a concern about firms that are new or growing, five years seems like a sufficient time to grow the fee base so as not to breach the 15% threshold. We would caution against extending this time period beyond the five-year period, as it would have compatibility issues with other legislative requirements such as Mandatory Audit Firm Rotation.

Question 10

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

44. No. We would prefer that no exception be provided in the IESBA Code. A period of six years should be a sufficient time to reduce the 15% threshold. However, we do acknowledge that unforeseen circumstances do exist. If this paragraph is kept, a few clarifications will be required.
45. The phrase “independent regulatory body” is different from “regulatory body” used elsewhere in the IESBA Code. Clarification is needed on whether this refers to an audit regulator or any independent regulator. If this includes regulators outside of audit focus, consideration needs to be given to the appropriate understanding of the IESBA Code provisions to allow for decision-making.

Question 11*Transparency of Fee-related Information for PIE Audit Clients*

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 considering the related application material, do you have views about the operability of the proposal?

46. Yes. We agree with the proposal relating to public disclosure. There was a concern whether this information will be understood for non-PIE clients. This was due to the public understanding of this information and the possible unintended consequences thereof.
47. Additionally, clarity on the timing of the disclosure needs to be included in the final amendments. This clarification will help elevate the robustness of the requirement.
48. One stakeholder noted that there already was transparency available to shareholders as this information is disclosed at their company's annual general meeting, where it is debated, and clarifications are requested. This meeting allows for communication and education, so that information will not be misinterpreted.
49. There was concerns from practitioners that this transparency may lead to the audit client driving the price down, and anti-competitive behaviour. TCWG may compare the audit fee with clients in the same industry or similar size, and not fully appreciate the detail of setting of an audit fee. Thus, these amendments once finalized will require education among auditors as well as with TCWG to avoid unintended consequences.

Question 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?

50. The previous South African Companies Act required the audit client to disclose the audit fee in the financial statements. This disclosure was well understood and allowed for transparency to all stakeholders.
51. We are supportive of the inclusion in the auditor's reports as well as in the firm's transparency report. An additional method may be disclosure on the firm's website. However, to fully appreciate the revisions to the IESBA Code, the disclosure of the non-audit fee will need to be considered as well. This will allow for a proper understanding and an evaluation of the firm's independence.

Question 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.

52. We do not foresee any restrictions in terms of anti-competition legislation. The IRBA has the mandate to set ethical standards for registered auditors. The consideration of fees has and will continue to be viewed in terms of threats to auditor independence, i.e. ethical consideration.

Question 14*Proposed Consequential and Conforming Amendments*

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?

53. We support the conforming amendments made to Section 905 and other sections.
54. While we cannot confirm that it is generally expected to receive overdue fees for an assurance re-engagement, we do agree that it could reasonably be expected.

Question 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?

55. No, we have not identified any other areas within the IESBA Code that may warrant conforming changes.

Other comments

(b) *Small and Medium Practices* – The IESBA invites comments regarding the impact of the proposed guidance for SMPs.

56. We do not believe that the proposals are punitive or harsh for SMPs, as these amendments have been done mainly on a principle basis.
57. However, there is a concern that these significant amendments may be overlooked by SMPs. Further, these provisions will necessitate change management for all firms before the effective date, meaning that SMPs may also need to consider this for their respective client base.

58. We encourage the IESBA to develop publications and other materials to support implementation.

(c) 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.

59. We appreciate the attention given to this important topic.

60. This section involved several calculations and considerations. Clarification on the timing and the consistent application of the calculations will allow for these amendments to be subjected to inspections and investigations.

61. The necessary documentation for the decision-making will be imperative to ensure that the firm complied with the IESBA Code.

(c) *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 proposed guidance, and in particular, on any foreseeable difficulties in applying it in their environment.

62. We do not envisage that this proposal will present any foreseeable difficulties from a developing nation’s perspective.

C. EDITORIAL COMMENTS

63. Please note the following editorial suggestions, where alternative wording is provided with underlined “insertions” and ~~struck through~~ “deletions”.

Paragraph	Suggestion
410.3 A3	We question if the reference to 410.22 A1 is correct.
R410.4	“Whether the threats to <u>objectivity and</u> independence created by the fees” (this is in line with 410.10 A1).
410.5 A3/ 330.3 A4	“Having an appropriate reviewer who was not involved in the audit engagement review the work undertaken <u>performed</u> ” We question if this safeguard is sufficient when considering fees that are already too low.
R410.6	“A firm shall not allow the audit fee to be influenced by the provisions”. It would be helpful to understand better what is meant by “to be influenced by”.
410.6 A2	“Paragraph R410.6 is not intended to prohibit cost savings that can be achieved as a result of experience derived from the provisions of services other than audit to the

	audit client, <u>when such services are permitted and where the application of such experience does not create a threat.</u> "
410.9 A3	"Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm ". The suggested deletion is in line with 410.5 A3.
410.10 A1	"Threat to the auditor's objectivity <u>and independence</u> ". – This paragraph should be aligned with R410.4 .
410.11 A4	"Having an appropriate reviewer who was not involved in the audit engagement review, review the audit work <u>performed</u> ". The addition is for consistency with other sections. However, this seems like an unusual example for a section on "services other than audit".
410.12 A3	"Whether the firm is expected to expand <u>or shrink</u> such that the significance of the client is likely to reduce <u>or increase</u> ."
R410.16 (b)	"Each firm performs sufficient <u>and appropriate</u> work to take full individual responsibility for the audit opinion." Similarly, the same suggestion would apply to R410.18 (b) .
R410.20 (a)	"The firm consults with <u>the relevant</u> independent regulatory board...".
410.22 A1	"The objective of such communication". The timing of this communication needs to be clarified. Would this be before, during or after?
410.22 A2	"The firm is encouraged to provide such information as soon as practicable". The timing of the communication has not been specified.
R410.23	"The firm shall communicate in a timely manner" Clarification on the meaning of "timely manner" is required.
R410.24	"Where the total fees from an audit client that is a public interest entity represents or are likely to represents". Clarification is required on the wording "likely to represent".
R410.25	"The firm shall be satisfied that the following information is publicly disclosed". A definition on publicly disclosed will help with understandability.
R410.25 (c)	Clarification is required on whether this paragraph will include forecasts.
R905.3	"Before a firm accepts an assurance engagement, the firm shall determine whether the threats to <u>objectivity and</u> independence ..."
905.4 A3	"... having an appropriate reviewer who was not involved in the assurance engagements review the work <u>performed</u> ."
905.10 A4	"Where the firm is expected to expand <u>or shrink</u> such that the significance of the client is likely to reduce <u>or expand</u> ".