



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

4 June 2020

Mr Ken Siong
Senior Technical Director, International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, 10017 USA

Dear Ken Siong,

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) EXPOSURE DRAFT, *PROPOSED REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE*

The Ethics Standards Board (“ESB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the IESBA Exposure Draft (“ED”), *Proposed Revisions to the Fee-related Provisions of the Code*.

We enclose in Appendix 1, our response to the questions contained in the ED.

We hope our comments would contribute to the IESBA’s deliberation in finalising the ED. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email at simontaypiteu@mia.org.my.

Thank you.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR. NURMAZILAH DATO' MAHZAN
Chief Executive Officer

APPENDIX 1

Our comments on Exposure Draft are as follows:

Specific Comments

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)?

We agree with the view of the IESBA. However, as those charged with governance ('TCWG') oversees the appropriate level of audit fees and accordingly, any self-interest threat would have been mitigated when the fees are negotiated with and paid for by an audit client, unless the audit fees are at exceptionally high or low levels.

Audit fees in Malaysia are comparatively lower than other ASEAN countries and therefore, greater prominence should be given to Professional Accountants in Business ('PAIB') to facilitate auditor's independence and associated audit quality in the proposed revisions to the Code.

We believe that there should be stronger requirements for PAIB in agreeing an appropriate audit fees since the conforming amendments in paragraph 270.3 A3 appear insufficient. Accordingly, we propose that a specific requirement be added to paragraph R270.3 requiring PAIB to apply a reasonable and informed third party test in ensuring that audit fees are sufficient and reasonable to enable the auditors to comply with professional standards and independence requirements.

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?**

We agree that fee arrangements should be evaluated prior to the acceptance of an engagement for an audit client.

However, we believe that more clarity is needed on the manner of determination of fees proposed by a network firm that could impact the independence of the firm performing the audit.

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 broadly agree that the level of fees should be considered for independence purposes. Based on varying legal requirements and level of capital market developments across different jurisdictions, an independent committee may not be practical especially for small- and medium-sized practices (SMPs) that lack sufficient appropriate personnel.

We would also propose that the IESBA clarify the term "significance of the client" in paragraph 410.4 A2, since this could be measured in several ways (e.g. level of fees, market position of the client, market capitalisation of the client, etc.).

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?

We support the proposed requirement but would propose that paragraph R410.6 be revised to: A firm shall not take into account the provision by the firm or a network firm of services other than audit when determining the audit fee. This is because we are of the view that the term "influenced" is subjective and provides broad latitude of interpretation.

We also believe that the more senior PAIB individuals whom the auditors interact with during an audit be made aware that the determination of audit fees should be premised on ensuring sufficient appropriate resources to perform the audit engagement in compliance with auditing standards are assigned or made available without any relationship with services other than the audit itself. This could be reflected in sections of the Code for PAIB.

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 support that the level of non-audit fees may give rise to self-interest threats.

However, compliance with such requirements would likely require the implementation of management information systems ('MIS') at the network level for the assessment of fees charged by network firms. Networks that do not currently have such systems would face practical challenges in complying with this requirement without incurring substantial costs of developing and maintaining these MIS. The MIS must be able to identify all services delivered to related entities of the audit client, which implies a certain level of sophistication that drives associated design and implementation costs. It remains unclear whether the benefits of such implementation would be significant to maintain audit independence.

SMPs, especially start-ups, face increasing likelihood that they would have a large proportion of fees charged to an audit client generated by providing non-audit services ('NAS'). This could inadvertently raise the barriers of entry into the profession and promulgate oligopolistic behaviour within the market.

We also seek clarification from the IESBA on the extent of the related entities included in the calculation of the ratio of fees and the level of ratio of fees that would trigger an issue of auditor's independence. In Malaysia, there are many government-linked companies for which the significant shareholder is the Malaysian Government itself. Accordingly, it would be very challenging to determine the proportions proposed in relation to related entities.

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?

We support the proposal in paragraph R410.14 to address threats created by fee dependency on a non-PIE client.

However, we would like to seek clarification on the basis and appropriateness of the proposed 30% threshold.

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?

We 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.

However, we would like to highlight following for consideration:

- a. The role of the independent professional accountant is not defined. For a PIE audit, the role of an engagement quality reviewer has already been defined. However, for a non-PIE audit, there is no indication of the nature, timing and extent of the review to be undertaken by the independent professional accountant.
- b. Deliverables required from the independent professional accountant is not specified in the ED. For instance, we seek clarity on whether the independent professional accountant is required to produce a report on the subject matter, and the scope and content of such a report.
- c. The qualification or experience required for the independent professional accountant.
- d. The impact to the audit opinion when there is disagreement between the auditor and the independent professional accountant.
- e. Could a network firm be considered an independent professional accountant?

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?

We support for the proposed action in paragraph R410.17.

However, we seek clarification on the meaning of pre-issuance review and its difference from an engagement quality review that is already in place for a PIE audit.

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?

We do not agree with the proposal because it is prescriptive and may not be practicable in emerging and developing markets.

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

We support the exception provided in paragraph R410.20 but there should be further consideration for jurisdictions with potential impediments to the firm's ability to seek the concurrence of a regulator or obtain the services of another professional accountant.

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?

We do not support the requirement for the audit firm to be responsible for the disclosure if it is not made by the audit client because such disclosures remains the responsibility of the client based on the requirements in the respective jurisdictions.

Furthermore, we believe that it is inappropriate to include fee disclosures in the auditor's report that is a channel for the auditor to provide an opinion on the financial statements rather than a tool to communicate audit fees, which could yield confusion on users of the auditor's report.

We believe that non-disclosure of audit fee information by the audit firm does not constitute a breach of the fundamental principles of independence, and it would be erroneous to link fee disclosures to the independence of an auditor.

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**

We would like to propose for the IESBA to consider fee information reported to audit regulators as an alternative appropriate channel. Actions and concurrence of audit regulators serves as an effective meaningful safeguard on addressing self-interest and intimidation threats.

- (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 further suggestions on this matter.

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.

Since audit fees are perceived to be closely linked to independence, we would like to propose that national accountancy bodies engage with their respective anti-competition authorities to consider the impact of these proposals.

It could be impracticable if specific standards are set in relation to the level of fees charged by audit firms. We believe that audit fees should reflect the following considerations:

- (i) Skills, knowledge, level of training and experience required of the persons engaged with the service.
- (ii) Time spent in conducting the work.
- (iii) Degree of responsibility associated with the service.

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?

We support the consequential and conforming amendments. Overdue fees, if not fully collected, should be substantially collected to an amount that reduces self-interest threats sufficiently. We believe that further clarity is needed for paragraphs 905.8 A3 and R905.9 on the interpretation of obtaining partial payment of overdue fees and whether the overdue fees might be equivalent to a loan.

In addition, we would like to seek clarification on whether a firm can accept an assurance engagement if the potential client has yet to settle the fees of the predecessor firm.

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?

We do not have further comments to add.