

June 2, 2020

The IESBA Chairman
International Ethics Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York
New York 10017
United States of America

Via Online Submission

Dear Mr Stavros Thomadakis

COMMENTS ON IESBA EXPOSURE DRAFT 'PROPOSED REVISIONS TO FEE-RELATED PROVISIONS OF THE CODE'

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on IESBA Exposure Draft, '*Proposed Revisions to the Fee-related Provisions of the Code*'. We also applaud the effort of the IESBA to enhance the Code.

In this regard, we are pleased to attach MICPA's comments as set out in Appendix I for your consideration.

We trust our comments and accompanying recommendations to be of value and useful to the IESBA, in your onward deliberation. MICPA looks forward to further strengthening such dialogues with your organisation.

Please do not hesitate to contact the undersigned or the Technical Director, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully



NOVIE TAJUDDIN
Chief Executive Officer

Our responses to the specific questions are as follows:

Evaluating Threats Created by Fees Paid by the Audit Client

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)?

Comment: We generally concur with the proposed revisions to the Code with regard to evaluation of threats caused by fees. The proposed enhancements dealing with low audit fees, overdue fees, fee dependency and how these and other situations might create a threat to independence are therefore appropriate. We also note that there are effective safeguards in place:

- Through corporate governance framework (e.g. Audit Committees);
- At engagement level, through quality control and engagement performance standards; and
- Through audit regulations and inspection regimes.

In respect to paragraph 410.4 A1, we regard those charged with governance (TCWG) as distinct from management. This distinction is also encapsulated in the Malaysian Companies Act in relation to the Board of Directors and management. As such, there are already check and balance regarding “negotiation” of fees, as TCWG are best placed to determine whether an audit fee is adequate taking into account of the complexities of the business and whether an organisation is obtaining appropriate value from its auditors. We are not clear who would be better placed to negotiate the fees, if not the TCWG.

In addition, payment of fees for any professional services, including audit services, by a client is a long standing and established commercial practice. We are similarly not aware of any jurisdictions where payment of audit fees by a client is causing independence concerns.

Given there are already effective safeguards in practice as explained, we see very little value for the inclusion of additional provision as proposed in paragraph 410.4 A1

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?

Comment: Though we are not supportive of the proposed provision in paragraph R410.4 A1, we concur with the overall direction of R 410.4. We are also of the view that the factors included in paragraph 410. 4 A2 are reasonable in evaluating threats created by fees.

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?

Comment: The proposal should provide greater scalability taking into consideration of the practicability of the proposal for small-medium practitioners (SMPs). A “one size fits all” approach would impose challenges on SMPs.

In view that competition can help to drive innovation which may bring down the costs of audit fees, due consideration to clarify that lower fees than the predecessor auditors may not automatically mean that there is an increased threat to auditors.

Impact of Services Other than Audit Provided to an Audit Client

Question 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?

Comment: We support the requirement in paragraph R410.6. However, the word “influenced” can be subjective and firms will find it difficult to demonstrate that they were not influenced. A rewording is recommended.

Proportion of Fees for Services Other than Audit to Audit Fee

Question 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?**

Comment: We support the guidance in paragraph 410.10 A1.

Fee Dependency for Non-PIE Audit Clients

Question 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 fee? Do you support the proposed threshold in paragraph R410.14?

Comment: The proposal does not appeal to differentiate and address the need of auditors who audit large non-PIE audit clients and auditors who audit small-medium non-PIE audit clients. Small practitioners with a handful number of audit clients will easily breach such requirements proposed in the Code. It is recommended that the IESBA looks into the scalability of the proposal, such as tiered system or any other forms that address the different business models of practitioners.

With regard to the threshold, 30% is not supported by an empirical evidence. The threshold should not be set merely based on certain activities. Paragraph 63 of the Exposure Draft highlighted that these are fact-finding activities, the IESBA should disclose the details of the fact-finding activities and how 30% was derived. Without appropriate empirical evidence, the threshold of 30% can be considered as unduly high and certain stakeholders may not agree with it.

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?

Comment: By having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements review the fifth year’s audit work, this will in reality encourage audit clients to rotate to another firm of auditors after five consecutive years. It will create a significant impact to SMPs who typically only have a handful of audit clients. Hence, we are of the view that paragraph R410.14 is an onerous proposition to SMPs particularly though we appreciate the threats to independence for such arrangements without appropriate safeguards.

Fee Dependency for PIE Audit Clients

Question 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?

Comment: It is recommended that the IESBA provides greater clarity on the definition of “a” PIE. In Malaysia, there are sovereign funds owned by the Government which in turn have equity investments in many public listed entities which are commonly known as GLCs (Government-Linked Companies). These GLCs are inter-related because of common ownership. We would like to seek clarification as to whether an audit client comprises of a company or a group of companies stand-alone or should other related GLCs under the same sovereign funds be included when considering the dependency.

In addition to the above, we believe that it is too short of time for a firm to resolve the issue of exceeding the threshold of 15% of the total fees received by the firm, prior to the audit opinion being issued on the second’s financial statements. We suggest the IESBA consider to revise the second year’s financial statements to third year’s financial statements as this will give firms sufficient time to resolve the issue of exceeding the 15% threshold requirement.

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?

Comment: We understand that the proposal of consecutive 5 years is to follow the existing rules in Europe. We are of the view that the 5 years may not be suitable to many other countries. In view of this, it is recommended to use consecutive 7 years, following the 7 years partner rotation period, in order to cater a wider group of users of the Code.

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

Comment: We agree with the exception provided paragraph R410.20 with the compelling reason having regard to the public interest as stated in 410.20 A1.

As indicated in Question 9, the period should be 7 years and not 5 years.

Transparency of Fee-related Information for PIE Audit Clients

Question 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?

Comment: Generally, fee information is disclosed by a PIE in its annual audited financial statements. Whilst the wordings in paragraph R410.25 seemingly puts the onus on an audit firm to ensure the required fee information are publicly disclosed, we do not believe that it is the intention of IESBA to require firms to create a “webpage” to publicly disclose fee information of their PIE audit clients.

Accordingly, we believe any requirements relating to public disclosure of audit and other fees by a PIE should be best decided by the relevant regulatory authority in that jurisdiction and should not be included in a Code of Ethics.

- Question 12: Do you have 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 judgements and assessments about the firm's independence?**

Comment: We have no further comment on this.

Anti-Trust and Anti-Competition Issues

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 organisations, regulators and competition authorities.

Comment: We believe we can adopt these principle-based rules within the national Competition Act 2010.

Proposed Consequential and Conforming Amendments

Question 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?

Comment: In relation to overdue fees from an assurance client, we generally expect professional accountant in public practice to obtain payment of all overdue fees before issuing its report for an assurance engagement, as it may impair the objectivity of the professional accountant in public practice.

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?

Comment: We have no further comment on this.