

**International Ethics Standards Board for Accountants: Proposed Revisions to the Fee-related Provisions of the Code**

We welcome the opportunity to comment on this Exposure Draft (ED).

Moore Global is a leading mid-tier network with over 250 independent member firms in 110 countries. Our firms are multi-disciplinary practices, providing a wide-range of professional services, which fall within the scope of this Exposure Draft.

The review of the fee related provisions of the Code have come at a difficult time given the far reaching impact of COVID-19. Due to the unprecedented financial challenges being faced by the majority of companies in most of the global economies in the world, including significant liquidity issues, auditors are facing significant pressure to reduce fees, but still deliver the same engagement service. Increased liquidity issues may also have an impact on the extent of overdue fees being experienced by firms.

Many business entities may either fail or drop out of the 'audit net' due to falling revenues and reduction in size. For some audit firms, depending on the composition of their client base, this could create potential fee dependence issues relating to remaining larger clients of audit firms, as a result of a reduction in their fee base at the smaller end. We appreciate that this would not have been foreseen when this Exposure Draft was being developed.

Whilst the amendments to this Code were written pre-pandemic, COVID-19 is likely to have a lasting impact on the global economy and it is important that the challenges posed by the "new normal" post COVID-19, are given appropriate consideration. We therefore wonder if now is the right time to consider making changes since it is entirely likely that further changes may be necessary in short order to reflect the shifting world and professional circumstances.

A number of the proposals set out in the Code seek to tighten the requirements in the Code due to the increased public scrutiny over the audit profession in recent years. Whilst the public's trust in the audit profession is still vitally important, it is important that IESBA now reflects on whether these changes are still fit for purpose given the real challenges being faced by both audit firms and their audit clients today.

As members of a mid-tier network of independent firms (rather than an integrated or highly centralised network which can both command/ control its member firms, and over which there can be some level of central fee arbitration/control or fee inter-dependency between firms), our firms have complete operational autonomy in relation to their client fee. There is no profit or fee sharing between firms or the network, and therefore no inter-dependence.

Whilst we broadly accept the more stringent transparency requirements, and fee considerations, in relation to Public Interest Entities, we have strong reservations around the proposals to extend the non-audit fee considerations in relation to non-PIE audit clients within networks. In particular, we disagree with what appears to be a proposal to compare network non-audit fees to network audit fees for non-PIE clients. Given the independent operation of each of our firms we consider this to be a step too far, given the minimal or non-existent threat to independence. The only exception would be where more than one firm signs a joint contract for audit service where we would consider that there is inter-dependence and agree that non-assurance fees v audit fees for the services provided across those firms must be considered.

The proposed changes for non-PIE clients would have significant cost, resources and time implications for both the network and the individual firms involved, including the re-engineering of conflict checking platforms, when the threat is minimal or non-existent. This should be mandatory only for integrated or centralised networks or IESBA could consider taking a threats/safeguards approach as highlighted in our response. Were IESBA to proceed with the proposal in this ED the implementation period would need to be extended.

Further we consider it unreasonable, and in all likelihood unworkable, to expect the responsibility of disclosure of audit fees for non-network firms to rest with the group auditor, rather than the client.

We have particularly welcomed the recent timely IESBA Q&As highlighting a number of the ethical risks in relation to COVID-19. In recognition of the increased fee dependence, intimidation and overdue fee threats arising from the pandemic, and with the aim to support audit firms in making the right decisions in relation to these threats, without adding unnecessary burden on audit firms during this already challenging time, we ask that IESBA instead consider:

- Postponing the finalisation of these revisions until the world economy has settled down; and
- Building upon the current Q&As, issue guidance on the safeguards that could be implemented in response to the increased threats being experienced during the duration of this pandemic.

## Request for Specific Comments

### *Evaluating Threats Created by Fees Paid by the Audit Client*

**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 both self-interest and intimidation threats are created by the fact that fees are both negotiated with, and paid by, audit clients.

Both threats are likely to increase significantly as a result of COVID-19:

- Clients facing significant financial pressures are likely to expect audits to be conducted for significantly reduced fees. The requirements for conducting an ISA compliant audit have not, however changed, and there is a real risk that being faced with such pressures could result in firms being forced to reduce the time and resources allocated to audit work, given their own financial pressures, thereby threatening the quality of audits.
- The client base of surviving audit firms is likely to be smaller, and fee dependence issues, and therefore the self-interest threat, is likely to increase.

Whilst the recently published IESBA Q&As highlight these risks, the guidance does not address the types of safeguards that could be considered, but instead refers back to the conceptual framework. Given that the economic aftershock from the pandemic is likely to last for a significant period of time we are of the view that it would be more effective, during this time, to postpone finalisation of these revisions and instead focus on the need to support firms in dealing with these challenges by providing practical guidance of the safeguards that could be considered when faced with these unforeseen threats.

**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:**

Yes we support the requirement at an individual firm level. We also support the need to re-assess the threats as audits progress, given that a change in circumstances for either the audit client or the audit firm can significantly change the extent of threats posed.

In relation to the network firm level we have significant concerns over the practical application. It would be impracticable for a network firm, which operates in a network with other independent firms, and is not operating in either an integrated or highly centralised network, to be expected at the acceptance stage to have obtained sufficient information about the fee income from all other network firms when dealing with the expediency of accepting audit clients, particularly in relation to non-PIE clients. The concern in this area is covered in more detail in 5 below.

**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:**

The governance arrangements within the firm, and in particular the existence of an Independent Committee would be a valid and appropriate example of a way in which firms could evaluate the level of threat in relation to fees. This should only be presented as an example and not a requirement given that it could be impracticable for smaller firms to implement – particularly in the current circumstances.

We agree that the existence of a quality management system should also impact on the evaluation of threats as include in para 410.4.A3.

***Impact of Services Other than Audit Provided to an Audit Client***

**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:**

Yes, this should be the position that all firms should take.

However in practice, particularly in light of the significant and unexpected economic downturn due to the recent pandemic, this may be difficult for many firms to operate in practice whilst they are faced with the real commercial pressures of ensuring the ongoing viability of their firm, and the likely pressures to reduce the full package of fees previously charged to audit clients. We therefore suggest that IESBA takes into account these COVID-19 challenges.

***Proportion of Fees for Services Other than Audit to Audit Fee***

**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:**

We would support this change at an individual firm level. We would also broadly support the proposal for “network firms” in relation to PIE audits.

We do not support this at a “network level” if the implication of the reference to “network firm” is that the totality of non-audit fees require to be considered for each audit client of each network firm.

In most mid-tier and smaller networks, where the firms operate as independent firms with a low degree of centralised control, each firm operates independently of the other firms in the network, meaning that operational decisions are conducted at a firm level, the commercial decisions to take on clients, including fee setting and fee issues, sit with each firm individually. There is no profit sharing or fee sharing between these firms and each business operates entirely independently from the other. There is therefore no merit in considering the total network non-audit fees v total network audit fees for the audit client in this context and to do so would be a redundant safeguard against a threat that is minimal or non-existent.

Extending the scope of considerations to gather fee data on non-audit services for all clients would result in network conflict checking systems requiring to be significantly re-engineered, which would be costly and take significant time to introduce, which would be disproportionate to the benefit obtained and would be disproportionately onerous for mid-tier and smaller networks. This would also have a significant knock-on impact on the implementation time-period required in order to make such software platform changes,

The only situation where we consider there should be “read-across” between firms is in relation to shared audit contracts within firms in the network, given that this then results in inter-dependence.

As alternatives to the measures proposed in the draft, IESBA may wish to consider either:

- differentiating between networks where there is financial inter-dependence and those where there is not; or
- taking a threats and safeguards approach i.e. where there is inter-dependence (such as in a joint contract situation or where there is other interdependencies such as in more integrated networks) appropriate action is required to monitor fee levels “cross-firm” and implement safeguards, but if there are no interdependence risks, that no cross-firm monitoring or actions are required.

#### *Fee Dependency for non-PIE Audit Clients*

**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:**

Given the economic crisis brought on by the pandemic we expect that reduction in audit clients will result in many firms breaching fee dependence limits, including those proposed, at least in the short term and recognition needs to be given that these are unprecedented times and that a level of tolerance may be required to allow firms to rebuild their practices following the devastating effect this pandemic is having on client numbers and fee levels. At the least the proposed implementation date should be deferred in order to give the situation time to settle down.

**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:**

The safeguards offer a choice between a hot (pre-issuance) or cold (post-issuance) file review without an explanation as to when each type of review may be appropriate (i.e. that a pre-issuance review should be used in higher risk situations). This may result in firms selecting the post-issuance review given that it will be the cheaper option even when it is not perhaps the most appropriate option in the light of the nature and circumstances of the situation.

In relation to the conditions applied to R410.16 joint audits, where it refers to the involvement of the other firm being equivalent to a pre-issuance review, it may need to be clarified that this is only appropriate in true “joint audits” i.e. when both firms sign the audit report jointly. Whilst we understand that different jurisdictions have different joint audit requirements, or use the phrase ‘joint audit’ to describe something which is perhaps not actually a joint audit (i.e. in some ‘joint audits’, whilst two firms may have been involved in the audit, one firm is designated as the signing firm) it is important in such cases that R410.16 is not applied where the firm with the fee dependence over 30% is solely responsible for signing an audit opinion.

#### *Fee Dependency for PIE Audit Clients*

**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:**

We support that for PIE audits a pre-issuance review is the only appropriate course of action and that a post issuance review does not adequately safeguard against the threat. However, there is a risk in only setting the requirement from year 2 that this could result in a first-year audit being conducted with high fee dependence levels without any safeguards.

In relation to joint audits, again, we would be concerned that this should not apply in cases where the firm which is exceeding the fee % is the only firm signing the audit report and that the conditions may require to be limited to where both parties sign the opinion.

**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:**

We broadly support this approach in safeguarding independence in the public interest. However, again we feel that in this period of economic recession now is not the time to be making such changes.

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

**Response:**

We would agree that the independent regulatory body should approve whether a firm is allowed to continue beyond this period due to compelling reasons. Although this may create an uneven playing field globally if some regulators become more accommodating to extending the time-period than others.

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

**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:**

The proposals set out assume that the group auditor discloses the total fees for the group audit including the fees of firms outside the network and that these disclosures are not only to TCWG but are publicly disclosed in either the audit report, or in the location specified by the specific jurisdiction requirements. In practice it may be difficult to ensure that the data for a firm outside of a firm's network is accurate.

Whilst the reason given for the increased disclosure is to provide stakeholders with complete information on the total audit fees this is not an independence issue, and we would question why this is included in the Code of Ethics, given firms outside the network have no relationship with the firm in question, and the responsibility for disclosure of the totality of the audit fees, including those from outside the network, should rest with the entity being audited, if required for wider stakeholder information. We recognise, however, that there is an exception allowed where it is difficult to obtain this information although it again puts the onus on the firm, and not the client, to provide the qualitative significance of the missing fee information which is not available.

**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:**

One possible other way of achieving complete transparency of information might be to put the onus on the client to produce the information, as the entity engaging the different firms for the services, over which the disclosures could then be checked for accuracy by the relevant firms. This is, however, beyond the scope of the IESBA Code of Ethics.

**Anti-Trust and Anti-Competition Issues**

**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:**

We have no comments to make.

***Proposed Consequential and Conforming Amendments***

**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?**

Our response to this section covers both audit and assurance clients – there was no request for comment in relation to the overdue fee changes made in relation to audit clients.

At the time the exposure draft was written it would have been the reasonably expected position that clients should settle their fees before the next audit or assurance engagement commenced, however in a post COVID-19 world, with most companies facing significant financial pressures we are likely to see an unprecedented increase in the level of overdue fees and this is likely to be unworkable in at least the immediate aftermath of the pandemic.

**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?**

We have extended our comment in 14 to audit and not just assurance engagements.

***Request for General Comments***

**105. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:**

***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:**

N/A

***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:**

The concepts contained in the proposal are straightforward and simple enough to easily be implemented by SMEs and SMPs, with the exception of the network firm requirements as previously stated and also if Independent Committee aspects are added. Timelines are, however, an issue.

***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:**

N/A

***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:**

Developing nations are likely to be badly hit by the economic recession and fee pressures are likely to result. As stated, it would be supportive at this challenging time for IESBA to introduce practical

guidance on dealing with these pressures, particularly for these nations, and defer finalisation of the revisions which would only serve to increase burdens at this difficult time.

### *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:**

As noted above, the impact of the COVID 19 pandemic is and will continue to be far reaching. Given that translation can be an issue at the best of times, it is not unlikely that any ordinary translation challenges (eg over timescale) will be amplified by current events. This is another argument for deferring the implementation date of any final revisions.