

01 June 2020

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
529 Fifth Avenue  
New York, NY 10017  
USA

**Re: Request For Comment: Proposed Revisions to the Fee-related Provisions of the Code Exposure**

Dear Mr Siong

**A - 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)?
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?
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?

***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?

***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?

***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?

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?

***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?

**EXPLANATORY MEMORANDUM**

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?

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

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?

***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.

***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?

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?

**Singapore member firm:**

Q.1 - We do not support this new paragraph, given that negotiation with the audit client and fee payment by the audit client are part and parcel of the normal course of business. Thus, it seems overly restrictive to consider them activities which create self-interest threats and potential intimidation threats to independence.

Q.2 – We do not support the proposed new requirement as it places undue burden on audit firms. In our view, even without this new requirement, the onus has always been on the firm, in the event of threats to independence by fees, to ensure that there are safeguards in place at any point in time to ensure no threats of independence.

Q.4 – We do not support this proposed new requirement as it is overly restrictive and does not take into consideration economic realities facing audit firms. Besides, IESBA is already proposing a threshold on total fees from an audit client in the same Exposure Draft. Since there is already such a mechanism to ensure that the audit firm’s independence is not unduly swayed, the proposed requirement is not necessary.

Q.11 – We do not support this proposal as it would result in onerous additional disclosure requirements for PIEs. We wish to highlight that the definition of PIEs in some jurisdictions may extend beyond listed entities. For instance, in Singapore, the definition of PIEs also includes financial institutions and large institutions of a public character and large charities.

Q.14 – Regarding the consequential amendments, we do not support the following consequential amendment to paragraph 410.11 A1:

“The evaluation of the level of the self-interest threat might be impacted if fees payable by the audit client for the audit or services other than audit are overdue during the period of the audit engagement. A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued.”

We are of the view that the deleted sentence provides more guidance (i.e. quantum: significant part of fees, period: before audit report for following year is issued) to firms on what factors to consider when assessing if overdue fees from clients give rise to self-interest threat.

**South Africa member firm:**

Q.1 – No, we do not agree that the negotiation of fees will create a threat. Most auditors run practices as a “business” and the negotiation of fees is a normal business practice. Unless audit fees are prescribed by the government or regulator, it will remain a necessary practice.

Q.2 – Yes, although we agree that this is a necessary practice, additional guidance should be provided for what is considered to be “an acceptable level”.

Q.3 – The following conditions could be considered:

1. Whether any other partners are involved in the engagement and whether the audit fee is shared
2. The amount of recovered costs incurred by the auditor that is included in the audit fee (disbursements for travel, other direct expenses, etc)
3. Whether the firm incurred costs to make use of experts and specialists (recovery of costs)

4. The ratio of the audit fee to the firm's total audit fee turnover

We do not believe that an independent committee is a feasible or practical solution for all firms, as many firms are too small to justify having such committees and it may also be difficult to get suitable members for such a committee. Such measures would only be practical in large or multi-national firms.

Q.4 – **R410.6** - Yes, in support of this paragraph.

Q.5 – **410.10 A1** - Yes, in support of this paragraph.

Q.6 – **R410.14** - The level of 30% is supported.

Q.7 – **R410.14** - The suggested safeguard to obtain an independent opinion is not practical. This will create the following issues to consider:

- Confidentiality of information (client and current auditor)
- Using a potential competitor in the industry to get familiar with the client and possibly using the opportunity for marketing own services

Q.8, Q.9, Q.10:

– **R410.17** - No, we do not support this revision in terms of using a person that is not a member of the firm. The independence and objectivity requirements are already applicable to an engagement quality control reviewer and it is therefore unnecessary to engage an external party to perform this review. **Recommendation:** It should be clarified if the reference to total fees relates to fees received for the provision of audit services or fees received for all services provided by the firm.

- **R410.19** - Yes, in support of this paragraph.

- **R410.20** - Yes, in support of this paragraph.

Q.11 – **R410.25** - Yes, in support of this paragraph. However, the following problems may arise: Most PIEs will obtain fee proposals from a number of firms when rotating auditors. Some audit firms may do cost-cutting on the previous fees published in the financial statements to be successful in the bid, however, will then present the PIE with audit fee overruns during the audit process.

Q.12:

1. Without disclosing the amount of audit fees, it can be published whether the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.
2. In transparency reports issued by audit firms on an annual basis, more information should be presented on audit fees received from PIEs.

Q.14 – This proposal may enhance issues of independence since the fees due to the audit firm are not dependent on the audit opinion. In some cases it may not always be possible or practical to collect all overdue fees before issuing the report, as a client's funding (particularly non-profit organization) is dependent on the provision of an assurance report.

**UK member firm:**

*[References to "EM" below are to paragraphs in the relevant Explanatory Memorandum.]*

Q.1 – Yes. I agree with IESBA’s aim “to raise firms’ awareness of the inherent self-interest threat and other threats that might be created; and to provide guidance on how to evaluate and address threats when they are not at an acceptable level” (EM 25). However, the IESBA makes an important statement in EM 23 which is not reflected in the proposed wording of the new standard: “The IESBA, however, believes that compliance with professional standards, including ethics requirements, is an important factor that acts to mitigate the threat and firms might often conclude that the level of the threat is at an acceptable level” [my emphasis]. If this is what proposed 410.4 A3 is meant to convey, it does not do so.

Q.3 – There is no harm in and of itself in including this example, as long as it is worded in such a way that it is clearly only relevant where the size and complexity of the firm justifies it. There is also the wider point that IESBA needs to make it much clearer than it does at the moment that its examples and application guidance are just that. Some national regulators are in the habit of treating examples and guidance as mandatory, which would clearly not be a desirable outcome for SMPs here.

Q.4 – Yes. I also support IESBA’s decision not to set a global level of “appropriate” audit fees and instead include additional factors in proposed 410.5 A2 (EM 33 and 35). It would be helpful, given the mention in proposed 410.5 A2 of pressure being applied by the client to reduce the audit fee, to cross-refer specifically to the proposed consequential amendment to Section 270 (EM 91). It is helpful that proposed 410.5 A1 acknowledges that the quantum of audit fees is a business decision (EM 36).

Q.6 – Yes, I support the overall proposal. However, 30% seems quite a high threshold. Even the threat of losing 20% of fee income in one go feels like a significant threat to objectivity. I agree with the suggestion of reviewing the thresholds after a period of implementation experience (EM 69).

Q.7 – The requirement for the review to be performed by someone outside the firm may be unnecessarily burdensome for SMPs. It would seem appropriate, where the level of fee dependence is not excessive, for someone within the firm whose remuneration is not significantly dependent on the same profit source to be able to perform the review.

Q.14 – The consequential amendment to Section 270 (enhanced guidance on pressure placed on another accountant to reduce the fee) is welcome.

**Japanese member firm:**

Q.6 – It is proposed that Non-PIE shall conduct safeguard measures, such as pre-test or post-test, if a firm is dependent on more than 30% of the firm’s revenue on a Non-PIE client (R410.14、 R410.15) We are against the across-the-board regulation on both PIE and Non-PIE because Non-PIEs have fewer public interests.

**Argentinian member firm:**

Q.1 – Yes. This analysis should be done having in consideration the type of audit client. Differentiation should be done for small and medium size audit clients and for PIEs and listed clients.

Q.2 – We support the requirement. We think that including guidance or examples of safeguards should help to maintain any threat to an “acceptable level”. Regarding the requirement for network firms, the IESBA should include guidance to apply this provision at a “network firm level”.

Q.3 – Although we support the existence of an independent committee that advises firms on governance and independence, for small and medium firms, due to their size, it will not be practical.

Q.4 – We support this requirement. However, the IESBA should include guidance to determine the level of fees at “network” level, because in some cases of small and medium firms there is not a centralized committee to monitor this matter.

Q.5 – We support the guidance. Please refer to our comments in Q.2 above regarding fees at “network firm level”.

Q.6 – We support this proposal.

Q.7 – We support the provisions. The guidance should either consider the ISA 220 or the ISA 220 should be reviewed in order to ensure it will be in line with the new guidance.

Q.8 – We suggest to clarify paragraph R410.17. The external review should be applied after 2 years, that means in year 3 audit.

Q.9 – We think that additional safeguards should be included in these cases to allow firms to retain the relation with the client. Especially in those cases when the condition in R410.18 is met.

Q.10 – We support the exception. However, in some jurisdictions the involvement of a regulatory body or professional body could be impracticable or inefficient.

Q.11 – We think that the fees should be disclosed to the Regulators. Actually, in most jurisdictions listed entities shareholders meetings approve the audit fees. Hence, they are made public. Disclosure of % covered by the audit client with respect to total fees should not be made public, only forwarded to regulators upon request.

Q.12 – Disclosing in the audit report the relative proportion of non-audit fees on total fees to the client, as already in place in some jurisdictions, could be useful to the users of the F/S. Regarding information to TCWG, a summary of the process of evaluating independence should be presented.

Q.13 – To enhance the application of the provisions in some jurisdictions / countries, the proposal should be adopted by the regulatory/professional bodies.

Q.14 – Agree.

**B - Request for General Comments**

- 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.
- 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.
- 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.
- 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.
- 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.

**Argentinian member firm**

We consider that for PIEs and listed Companies the Audit Firms should provide to the regulator on an annual basis the fees charged related to the total audit fees and to the total fees charged on a consolidated basis (parent and subsidiaries). Procedure already applied in some jurisdictions.

Please feel free to contact me if you have any comments or queries.

Yours sincerely,



Mohammed Yaqoob

Audit Director