



**INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
OF UGANDA**

*Our Ref: STA/001*

29 May 2020

Senior Technical Director,  
International Ethics Standards Board for Accountants (IESBA),  
529 Fifth Avenue,  
New York, NY 10017,  
United States of America.

Submitted via website: [www.ethicsboard.org](http://www.ethicsboard.org)

Dear Sir/Madam,

**PROPOSED REVISIONS TO THE FEE- RELATED PROVISIONS OF THE CODE**

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to the **Proposed Revisions to the Fee- Related Provisions of the Code.**

Our comments are herein the attached.

We hope you will find our comments helpful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Charles Lutimba', written over a circular stamp or seal.

CPA Charles Lutimba  
MANAGER, STANDARDS AND TECHNICAL SUPPORT

*Appendix: Comments to the Proposed Revisions to the Fee- Related Provisions of the Code*

*EK/...*

**APPENDIX: ICPAU'S COMMENTS ON THE IESBAEXPOSURE DRAFT- PROPOSED REVISIONS TO  
THE FEE- RELATED PROVISIONS OF THE CODE**

**ICPAU'S COMMENTS**

**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:**

ICPAU agrees that self-interest threat and intimidation threats to independence may be created when fees are negotiated with and paid by an audit or assurance client. However, it is to be noted that the current business model for most audit engagements is such that the audit client directly pays the auditor for this service.

In addition, the level of the fees paid may have an influence on quality of work and perceived or actual independence of the auditor. If the amount is too low, it is likely that the required effort as per the International Standards on Auditing (ISAs) may not be fully achieved so that the engagement can remain profitable. On the other hand, a high fee may impair the auditor's judgment into giving an opinion that is favorable to the client due to the self-interest or intimidation threat. This is especially so when the proposed fees of the client make up a big percentage of the total fees for the partner or the firm.

**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:**

ICPAU supports the requirement for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level before accepting an audit or other engagement for the client and before a network firm accepts to provide a service to the client. This is because this requirement will create a culture among auditors of being more conscious about any threats to their independence as they perform their duties.

**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:**

ICPAU agrees that the factors listed in paragraphs 410.4 A2 and 410.4 A3 are relevant to evaluating the level of threats created when fees are paid by the audit client, more so given that the said paragraph 410.4 A2 has been couched in a more inclusive format thereby paving way for more illustrations that may be peculiar to a particular jurisdiction.

Whereas the existence of an independent committee that advises the firm on governance matters might mitigate the threats to the firm's independence arising from fees paid by an audit client, we do not believe that providing this as an example will be particularly useful for Small and Medium Practices (SMPs). SMPs may find this measure too onerous as it would imply a total restructure of their corporate governance structure. Therefore, the existence of such committee should be left to be guided by each individual firm's corporate governance structure and assessment of the fee-related risks.

#### **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 network firm of services other than audit to the audit client?

**Comment:**

ICPAU supports the requirement for the level of the audit fee not to be influenced by the provision of services other than audit to the audit client because the audit and other services provided are inherently different assignments which should be handled independently so as to maintain independence. The level of the audit fees should instead be influenced by other relevant factors such as the scope of the work to be performed, nature of the client's business, etc.

#### **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:**

ICPAU supports the guidance on the determination of the proportion of fees for services other than audit. We agree that the IESBA should take a principle-based approach and allow firms to

evaluate the level of threat created by the proportion of fees for services rather than setting a fee cap as this would impair the known market dynamics in any business setting.

Whereas we support the factors relevant to evaluating the level of such threats as listed in paragraph 410.10 A2 and the safeguard listed in paragraph 410.10 A3, we propose that the IESBA provides additional examples of safeguards for example having separate engagement teams, etc. that would address the independence threats under paragraph 410.10 A3. This will be key in helping firms effectively implement the Code.

### **Fee Dependence 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 client? Do you support the proposed threshold in paragraph R410.14?

#### **Comment:**

ICPAU believes that the IESBA should take a principles-based approach for evaluating threats caused by possible fee dependency on non-PIE audit clients. In our view, a principles-based approach allows for firms to evaluate and reduce threats to an acceptable level.

**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:**

ICPAU supports 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 ICPAU believes that with the current debate on mandatory audit rotations, the IESBA may consider maintaining a principle-based guidance with the setting of threshold definitions left for jurisdictional application. Also the IESBA may consider providing additional examples of safeguards that could reduce the threats.

### **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:**

ICPAU supports the proposed action to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client. However, our observations as in question 7 above refer.

**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:**

ICPAU support this proposal. ICPAU is aware that in number of jurisdictions including Uganda, there are mandatory audit rotational terms for a number of PIE audit clients that that are shorter than the five year period. ICPAU proposes that guidance be included in this paragraph for a firm to cease to be an auditor of PIE client if fee dependency continues after a period prescribed by an independent regulatory body or professional body in the relevant jurisdiction. ICPAU envisages that a period shorter than 5 years will be more acceptable in some jurisdictions.

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

**Comment:**

No comment

#### **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:**

ICPAU supports this proposal and believes that disclosure of fee-related information enhances transparency and benefit of users of financial statements in facilitating their judgments and assessments about a firm's independence.

**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?

**Comment:**

ICPAU does not have any other views or suggestions as to what the IESBA should consider as possible ways to achieve transparency of fee-related information for PIEs audit clients and information to be disclosed to TCWG and to the public to assist them in their judgments and about the firm's independence.

## **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:**

ICPAU believes that these proposals could be adopted by standard setters within the framework of national anti-trust or anti-competition laws.

## **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:**

ICPAU supports the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft. We generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement.

**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:**

ICPAU has not identified any other areas within the Code that may warrant a conforming change as a result of the proposed revisions.