



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

June 4, 2020

Re: IESBA Exposure Draft – Proposed Revisions to the Fee related Provisions of the Code

Dear Mr Siong

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA's exposure draft regarding Proposed Revisions to the Fee related Provisions of the Code.

Overall Comments

While we support the Board's ambition of enhancing the provisions of the International Independence Standards and concur with several of the proposals, we do have concerns with some of the proposals. Notably:

- We do not agree with the inclusion of additional provisions addressing a self-interest threat arising from the negotiation and payment of audit fees given the safeguards already included in the Code (see Q1)
- We are supportive of IESBA's proposal to establish a threshold for non-PIE fee dependency. With respect to the appropriate threshold, we are supportive of a measure that will consider the threats to independence posed by a high level of fee dependency. We note that the Code's current PIE fee dependency involves a 15% threshold and we welcome further dialogue with IESBA and stakeholders on the appropriate threshold for non-PIEs (see Q 6 and 7)

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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- We believe that any requirements related to the public disclosure of audit and other fees by a company, in its financial statements, or otherwise, should be established by the appropriate regulatory authorities in a jurisdiction (see Q11)

As mentioned in our Network response to the Board's exposure draft on non-assurance services, we believe that ideally independence standards should converge on a single set of common and robust standards. This has parallels in what many advocated for, and what has largely happened, in relation to Accounting and Auditing Standards whereby, in the latter case, there are two dominant recognised sets of auditing standards (PCAOB/US GAAS and the ISAs). Whilst we recognise the challenges, we strongly encourage the IESBA to consider how the application of the IIS interacts with existing jurisdictional Standards and to open a dialogue with key stakeholders including IOSCO, the US SEC and other leading regulators/standard setters to see if there is a path forward to resolving this dilemma and which would ideally see the adoption of the IIS as a common standard.

Requests for specific comments:

Our responses to the specific questions raised in the ED follow.

- 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)?*

We concur with the overall direction of R410.4 to evaluate threats created by fees but we do not support the inclusion of the proposed application material at 410.4 A1. The Code (as enhanced) addresses low audit fees, pressure on fees and other situations that we agree might create a threat to independence. There are also effective safeguards in place - both structurally through corporate governance frameworks (e.g. audit committees) and audit regulation (including inspection regimes), as well as at the engagement level, through quality control and engagement performance standards. We view the provisions as largely impractical and see little benefit in the Code addressing this matter, given the existing provisions that address the threat.

The charging and payment of fees for any professional service, including the audit, is a long-standing commercial practice and we are not aware of any jurisdictional regulator having concerns about the payment of audit fees by the client (other than potentially at the theoretical level). Notably, in relation to audit and assurance fees:

- we do not believe that such an arrangement creates a mutuality of interest with the client
- the firm has a right to recover costs and the client needs to pay an appropriate market price
- there is no contingency fee basis for assurance services - the fee is based on the skills, time and labour in delivering the service
- the Code already addresses the main concern, which is where the level of audit fees is so low that the quality of the audit is threatened, and furthermore
- the Code addresses other situations that could indeed create a threat to independence (or objectivity), such as overdue fees, contingent fees for NAS, proportion (ratio) of fees and dependency on fees.



With respect to “negotiation,” we believe that those charged with governance (TCWG), who are distinct from management, are best placed to determine that appropriate value is obtained from the auditor and whether the audit fee is adequate given the complexities of an organisation. It is not clear who would be better placed to negotiate the fees if not TCWG. Accordingly, we do not believe that the additional material is needed.

- 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?*

We concur with the overall direction of R410.4 to evaluate threats created by fees but, as noted above, we do not support the inclusion of the proposed application material at 410.4 A1. We believe that the factors to consider as set out in proposed 410.4 A2 are reasonable and suggest that there should be a better linkage of the requirement to these factors. The phrase “created by the fees proposed to the client” in the requirement does not do justice to the range of factors mentioned. We also suggest that the factors listed, in several cases, are not linked to threats created by *who* pays the fees (“when the fees are paid by the audit client”), as described in the lead-in text. Similar to our comment on 410.4.A1, we believe the focus on “who” is misplaced.

- 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?*

Subject to our response to Question 2, we support the inclusion of these factors (410.4 A2) as a helpful summary of the issues.

To these we suggest adding “overdue fees” and “fee dependency” at the firm/office level.

The factors could also be enhanced by making reference to the fact that competition can help to drive innovation in audit practices and might help drive down costs. As such, a lower fee than the predecessor auditor does not automatically mean that there is an increased threat to independence.

- 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?*

Yes, we support this requirement in principle, but we have difficulty in seeing how the firm would be able to demonstrate this, particularly given the subjective nature of the word “influenced”. We recommend that it might be better to state that “The firm shall establish policies and procedures that require that the level of fees for the audit are set [independently and] without consideration of the provision by the firm or a network firm of services other than audit to the audit client”.

- 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?*

Yes, we support this guidance as a high proportion of NAS fees to audit fees has the potential to create a threat to independence, particularly in relation to independence in appearance. Accordingly, we agree that it is appropriate that the firm applies the conceptual framework approach to evaluate the level of any threat.

We believe that in practice, fees to the audit client and entities under its direct or indirect control should be considered for this purpose as it is the fees for services to such entities that have the potential to create threats in relation to a group audit. This is likely consistent with the thinking behind bullet 2 in 410.10 A2.

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?*

We agree with the need for the firm to evaluate the threat created by a high level of fee dependency on an individual client.

With regard to the 30% threshold, we note that the Code's current PIE fee dependency provision involves a 15% threshold and we welcome further dialogue with IESBA and stakeholders on the appropriate threshold for non-PIEs.

If the Board decides to retain the current proposed 30% threshold, we believe that to defer the need for safeguards to the fifth or six year to be imprudent given the level of the threat. Therefore, we recommend that IESBA give consideration to requiring safeguards prior to the issuance of the audit report on the third year's financial statements.

7 *Do you support the proposed actions in paragraph R410.15 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?*

Please see our response to Question 6. We are concerned that the Code permits the adoption of safeguards that extend over a long period of time even when the audit firm is clearly overly dependent on a single client. We recommend that the IESBA considers a required resignation if the situation continues for an extended period.

An exception might reasonably be included where a firm is acting as a component auditor of a large group audited by the Network, given that there are robust safeguards through Network quality management systems and the direction, supervision and review by the group auditor of, and ultimate responsibility for, the work performed on component financial information by that component auditor.

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?*

Yes, we support this provision.

However, in terms of the relevant fees we believe that the provision lacks clarity. We assume this is intended to refer to all fees received by the firm from the client or a related entity, and excludes fees



received by other firms in the Network (or indeed other component auditors outside the Network) whether for audit or for other services. This could be clearer.

- 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?*

We regard a “5 year” requirement as overly generous and, given the threats to independence, suggest that the Board consider reducing this to say 3 years.

Again, an exception might reasonably be included where a firm is acting as a component auditor of a large group audited by the Network, given that it is in the public interest for the financial statements to be audited for group reporting purposes and since the request to perform the work is coming from another firm in the Network.

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

We support this exception subject to our comment in response to Question 9.

- 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?*

We believe that any requirements related to the public disclosure of audit and other fees by a company, in its financial statements or otherwise, should be established by the appropriate regulatory authorities in a jurisdiction, reflecting local stakeholder views. We do not believe this is a matter that should be addressed in a Code of Ethics, designed to influence the professional and ethical behaviour of professional accountants, not least since the auditor does not have the power to require the company to disclose this information. The Code might encourage the firm to discuss with TCWG the benefit from a public interest perspective of the company making such disclosures if not otherwise required by law or regulation.

If an audit firm has complied with all the relevant provisions of the Code, then the safeguards implemented should address identified threats to independence. Disclosure of fees paid is not, in our view, a further safeguard that practically addresses any identified threat. However, we do acknowledge that the levels of fees payable to an auditor can affect stakeholders’ perceptions of independence. While such disclosure may provide some communicative value to help stakeholders consider independence, it does so without the benefit of all the facts and associated two-way communication about threats and safeguards that gets communicated with TCWG.

Likewise, we agree that the proportion of audit fees to non-audit fees might be of interest to stakeholders. Again, if the relevant provisions in the Code are followed and TCWG play their role in evaluating the provision of NAS and concurring with the provision of such services, combined with their oversight role in relation to independence, then the public disclosure of the ratio should not create a situation where the stakeholder or user of the financial statements is to “second guess” the professional judgements of the firm and those TCWG. However, this metric may be of more



communicative value in demonstrating a firm's potential overall self-interest in the level of non-audit fees.

With respect to group audits, we would normally expect the group engagement team to know the fees being charged for the entire group audit and what was being allocated to all component auditors for purposes of the work they are doing in auditing components. In the event that it is not possible to obtain all the factual information, we do not believe it is appropriate for the group auditor to have to estimate, and then disclose, such fees.

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;*
- b. *Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?*

No. See question 11.

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?*

While we do not readily see why the provisions on fee-disclosures would result in anti-competitive behaviour, if there is a risk that this might be an issue in certain jurisdictions, we recommend that the Code includes application material to the effect that users should be aware of any anti-trust requirements in the territory and comply therewith.

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 comments above in response to Question 1 and 2 are equally applicable.

Otherwise we agree with the other conforming changes, although we believe that it would be very rare for a firm to be over-dependent on the fees from a non-audit assurance client.

In general, we would expect prior years fees to be paid before concluding a current engagement but consider the application material addresses the threats in an appropriate manner. It might also be appropriate to recognise that many of these types of engagements are one-off engagements, rather than recurring annual engagements.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at samuel.l.burke@pwc.com.



Yours sincerely

A handwritten signature in black ink that reads "Sam".

Sam Burke

Global Independence Leader