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Proposed Revisions to the Fee-related Provisions of the Code

Dear Mr Siong,

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to respond to your Consultation Paper – Proposed Revisions to the Fee-related Provisions of the Code.

We support the objective of the project to ensure all Non-Assurance Service (NAS) provisions in the International Independence Standards (IIS) are robust and of high quality for global application to increase confidence in the independence of audit firms. However, we feel that some of the proposed changes might result in a greater concentration of the non-PIE audit market, which would not be desirable.

Set out below are our responses to specific questions posed in this Consultation.

Responses to Request for Specific Comment

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)?

No. IESBA 120.6 A3 defines a self-interest threat as: *“Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behavior”*. We do not believe that negotiating a fee with an audit client or being paid by an audit client automatically creates a threat to the judgement or behaviour of the accountant. We suggest that the wording be amended to read that *“... a self-interest threat might be created....”*.

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?**

Yes, we support this.

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?

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We do not have suggestions for further factors relevant to evaluating the level of threats associated with fees. We agree with the views within the IESBA that inclusion of an independent committee as a relevant condition would go beyond the remit of this project as the existence of such a committee would depend on the firm's corporate governance structure.

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?**

Yes, we support this. However, paragraphs 410.6 A1 and A2 could be read as being contradictory; A1 states that the provision of other services should not influence the determination of audit fees while A2 recognizes the provision of other services can generate cost savings on the audit.

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?**

Yes, we support this. The independence requirements for the provision of services other than audit apply to the network firms and to services provided to related entities of audit clients and so it seems appropriate that assessing threats in respect of fees should include those fees from services provided by network firms to audit clients and relevant related entities.

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?**

We do not support the introduction of a threshold for non-PIE audit clients. The IESBA code is principles based and we do not believe that IESBA should set such rules for audit clients that are not in the public interest. The non-PIE audit market is served by many small and medium-sized practices and we believe that the introduction in the Code of the proposals in paragraph R410.14 might result in a greater concentration of the non-PIE audit market, which would not be desirable.

- 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?**

No, we question whether it is realistic to expect a small accounting firm to be able to appoint another accountant to perform a review of one of its audits and, as per question 6, we do not support the introduction of 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?**

We believe that the extant code provides better guidance and offered helpful actions to take to address the issues created and so we do not support, nor understand the need for, a change.

- 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?**

No, we do not support this. We do not understand why, having been able to apply safeguards in years one to five, it would not be possible to apply safeguards in year six. The matter should be discussed with those charged with

governance to determine whether safeguards can be applied to allow the firm to continue as an independent auditor.

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

As above, we do not agree with the requirement R410.19. If agreed with those charged with governance an effective action in assessing the threats might be to consult with a regulatory body for guidance.

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?

No, we do not believe that it should be the audit firm's responsibility to publish fee-related information. The appropriate place for public disclosures on fees paid by an audit client is the audit client's financial statements, requirements for which are under the regulation of IAASB. In doing so, the results reported would be subject to audit. Indeed, if the audit firm is responsible for the public disclosure of fees paid by the audit client, this might create a self-review threat, which would be impermissible.

We also question whether it would be practicable for the auditor to determine fees paid by the audit client to other accounting firms involved in the audit.

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?**

No.

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.

We believe that there is a risk that some of the proposals might impact free competition within the audit market which could, in turn, lead to greater concentration on the audit market and so we do not agree with some of the proposals, as outlined above.

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?

To the extent that we do not support a number of the proposals of the exposure draft, we do not support the relevant consequential and conforming amendments.

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?

No.

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you have any questions or comments please do not hesitate to contact Pete Oastler (+44 (0) 7799 510 816) or me (+44 (0)207 601 1077).

Yours sincerely



Marion Hannon
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