

04 June 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standard Board for Accountants (IESBA)
529 5th Avenue, New York 10017
New York, USA

Dear Ken,

Re: Comments on Exposure Draft, "Proposed Revisions to the Fee-related Provisions of the Code"

We are pleased to comment on the Exposure Draft, Proposed Revisions to the Fee-related Provisions of the Code published by the International Ethics Standard Board for Accountants (IESBA) in January 2020.

These comments are prepared by the Technical Division of the Institute of Chartered Accountants of Bangladesh (ICAB) and reviewed by the Technical and Research Committee (TRC) of the Institute.

Our responses detailed by the questions contained by the Exposure Draft, are presented in the 'Appendix' to this letter.

Should you require any further clarification, please contact me at mahbub@icab.org.bd

Thanking you,

Mahbub Ahmed Siddique FCA
Director Technical, ICAB

'APPENDIX'**Comments on Proposed Revisions to the Fee-related Provisions of the Code**

The Technical Division of the Institute of Chartered Accountants of Bangladesh (ICAB) has gone through the Exposure Draft (ED) on **Proposed Revisions to the Fee-related Provisions of the Code** issued by **International Ethics Standard Board for Accountants (IESBA)** on Proposed Changes for **improving and simplify the Fee-related provision of the Code**. The following specific comments on the requested specific questions along with the general comments have been prepared by the Technical Division of the Institute of Chartered Accountants of Bangladesh (ICAB) and reviewed by the Technical and Research Committee (TRC) of ICAB.

Our Comments on the Requested Specific Questions are as follows:

Specific Comments***Evaluating Threats Created by Fees Paid by the Audit Client***

- I. 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)?**

ICAB's Comment:

Yes, we 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) as stated in the IESBA's proposed paragraph 410.4 of the Code.

We also believe that the negotiation of audit fees created threats to the independence of the auditor and we agree with the IESBA's proposed statement.

As per Section 200 of IESBA Code of Ethics for Professional Accountants, a self-interest threat to independence is created when a professional accountant holding a financial interest from the client & also for over dependency on the audit fee and an intimidation threat to independence is created due to pressure to reduce the audit fee by the client or dismissal or replacement of auditor due to any disagreement between auditor and client.

It also seems to be appropriate that through ED, IESBA aims to raise firms' awareness of the inherent self-interest threat and other threats that might be created when fees are negotiated with and paid by an audit client (or an assurance client); and to provide guidance on how to evaluate and address threats when they are not at an acceptable level as discussed in paragraph 25 of this Explanatory Memorandum.

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?

ICAB's Comment:

(a) Yes, we 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 before the firm accepts an audit or any other engagement for the client as we believe that the proposed revision will adequately support the audit firm to determine the threats to independence at an acceptable level created by the audit fees; and

(b) Yes, we also 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 before a network firm accepts to provide a service to the client as we believe that the proposed revision will appropriately support the network firm to determine the threats to independence at an acceptable level created by the fees.

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?

ICAB's Comment:

We think the proposed code covers the key factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client.

However, we think that "the adequacy of time given for accomplishment of audit assignment maintaining appropriate audit procedures" may also be added as one of those factors.

We do 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 as noted in the para 30 of the Explanatory Memorandum.

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?

ICAB's Comment:

Yes, we do support that a firm shall not allow 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 as stated in paragraph R410.6.

We also believe it is in the public interest to make clear in the Code that the fee for an audit engagement is a standalone fee and that it should not be considered as part of a spectrum of fees that might be charged to the audit client. Hence, the provision of other services by the firm or a network firm to the audit client should not influence the audit fee.

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 AI 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?

ICAB's Comment:

Yes, we support the IESBA's approach to the revisions in proposed paragraph 410.10 AI which includes the guidance on determination of the proportion of fees for services other than audit charged by both the firm and network firms to the audit client and/or delivered to related entities of the audit client. We have concern about the determination of the proportion of fees charged for services other than audit. We believe that having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work might be a safeguard to address such self-interest or intimidation threats.

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?

ICAB's Comment:

Yes, we 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.

But it is true that there are some small or proprietorship firms who are in some cases highly dependent on specific non-PIE Audit Clients. As a non-PIE Audit client carries much less risk than that of a PIE Audit client, the proposed threshold in paragraph R410.14 may be changed to 50% instead of 30% for applying the safeguard as mentioned in that paragraph considered to reduce the threats created to an acceptable level. It should also be specified whether the fee from such a non-PIE audit client is only the audit fee or it includes other fees charged on that client.

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?

ICAB's Comment:

Yes, we 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. We believe that this action might be a safeguard to reduce the threats created to an acceptable level. However, we also believe

that there are difficulties to implement the actions for non-PIE audit client and will impact the firm's independence.

We also think that in case of significant fee dependency on an audit client as noted in the paragraph, irrespective of year of audit and type of client, there should be a mechanism of reviewing audit working files by a professional accountant within the firm in addition to the engagement partner.

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?

ICAB's Comment:

We have difference of opinions. Firstly, we agree that in case of high dependency on audit fees of any particular PIE client, the proposed action may reduce the threats created by fee dependency to an acceptable level. We believe that this action might be a safeguard to reduce the threats created to an acceptable level.

But we think the percentage of fee may be fixed at 20% instead of 15% in case of PIE to treat it as high dependency, because except for big firms there are many small and medium firms who have fee dependency on any particular PIE audit client (i.e. more than 15%) which should not be fall under the proposed action.

The definition of PIE also needs further clarity for determining such fee dependency. In Bangladesh, PIE has been very widely defined by one of the local regulators recently which is not aligned with the concepts that underline the definition of a PIE in the Code relevant to the term "entity of significant public interest" in the IAASB's extant or proposed standards. Because of inclusion of wide variety of entities under PIE category specifically in Bangladesh, the fee dependency may be considered at 20% in case of PIE instead of the proposed 15%, otherwise it may be very difficult job to implement the proposed action in Bangladesh.

We also believe that this has impact on the firm's independence and confidentiality, because an independent reviewer who is not a member of the firm will review the firms expressing opinion prior to the audit opinion being issued by the firm.

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?

ICAB's Comment:

The definition of PIE in the proposed Code termed as "entity of significant public interest", discussed in paragraph 18 of this Explanatory Memorandum. In the local context the definition of PIEs was made so widened that most of the business entities will be categorized under PIEs. So, there are differences between the definition of PIE stated in the Code and the local definition of the same. So, we believe that the definition of PIE also needs further clarity for determining such fee dependency.

However, assuming the meaning of PIE as "entity of significant public interest", we agree with the IESBA's approach to the revisions in proposed paragraph R410.19 which stated that a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client. We agree with the IESBA's view that fee dependency on an audit client that is a PIE cannot continue indefinitely, because after a certain period of time, the fee dependency would become so

persistent and fundamental that no safeguards would be capable of reducing the threats to an acceptable level. We believe that this proposed procedure will enhance the accountability and objectivity of the firms.

It is also noted that in some jurisdictions, laws or regulations might prohibit firms from resigning as auditor from a client relationship. The IESBA agreed that the Code already addresses such a circumstance in the overarching requirement in Section 100 to the effect that the Code cannot override laws and regulations. Therefore, if laws or regulations prohibit a firm from ending the audit engagement after five years, the firm must continue to be the auditor for such period as required under those laws or regulations.

But we have concerns about the proposed revision stated in paragraph R410.19 mainly due to the differentiation in definition of PIE by local authorities. The insight of this provision may be impacted if the local authorities define PIE so widely and not in line with IESBA's indication.

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

ICAB's Comment:

Yes, we support the IESBA's approach to the revisions in proposed paragraph R410.20 which stated an exception that the firm may continue to be the auditor of PIEs after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that the firm consults with an independent regulatory body or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest.

However, we have difference of opinion on the proposed revision in proviso (b). We think it should not be mandatory of engaging a professional accountant who is not a member of the firm expressing the opinion on the financial statements to perform a pre-issuance review in case of such continuation of audit after fifth year. This may impact on the firm's independence and confidentiality.

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?

ICAB's Comment:

Yes, we support the IESBA's approach to the revisions in proposed paragraph R410.25 regarding public disclosure of fee related information for a PIE audit client. We believe that the proposed revision is reasonable and it will increase the transparency of fee-related information for PIE Audit Clients.

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?

ICAB's Comment:

- (a) We think all firms should disclose their fees related information with the professional bodies they are regulated and the firm's should have mechanism and clarity on how they fix the fee.

We believe that the quality of audit cannot be compromised due to level of audit fee. However, it is fact that the quality has cost means to ensure audit quality, better resources need to be deployed and audit must be conducted in compliance with auditing standards which incur reasonable cost to the firms. We believe that unduly low level of audit fees could create threats to compliance with the fundamental principles and adversely impact audit quality.

In Bangladesh case, ICAB prescribes sector-wise minimum fees' schedule considering the local context in all aspects and receives the fees information from the audit firms through annual returns of the firms through which the Institute can monitor the level of fees charged by the firms and in case of very low fee charged by any firm against any audit client, the quality of audit is subject to review. We believe, this process motivates the firms to maintain and enhance the audit quality and to reduce the undue competition in charging of lower audit fee.

- (b) We think the requirement of formal interaction among auditor, TCWG and shareholders should be considered in the proposed revision of standards so that it can be the part of the code and which will help audit firms to compel the audit clients to have such arrangement formally including the fee negotiation. Through this process, the firm may have better opportunity to share information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence. It will also help to increase the audit fee rationally.

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.

ICAB's Comment:

Yes, we believe that the proposals in the Exposure Draft could be adopted by the national standard setters as well as by the professional accountancy organization. We found no adverse impact relating to proposals stated in the Exposure Draft.

We believe that the quality of audit cannot be compromised due to level of audit fee. However, it is fact that the quality has cost means to ensure audit quality, better resources need to be deployed and audit must be conducted in compliance with auditing standards which incur reasonable cost to the firms. We believe that unduly low level of audit fees could create threats to compliance with the fundamental principles and adversely impact audit quality.

In Bangladesh case, ICAB prescribes sector-wise minimum fees' schedule considering the local context in all aspects and receives the fees information from the audit firms through annual returns of the firms through which the Institute can monitor the level of fees charged by the firms and in case of very low fee charged by any firm against any audit client, then the quality of audit falls under subject to review. We believe, this process motivates the firms to maintain and enhance the audit quality and to reduce the undue competition in charging of lower audit fee.

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?

ICAB's Comment:

Yes, we support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft.

The self-interest threats to independence may be created due to overdue of fees. Hence, in relation to overdue fees from an assurance client, we would 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?

ICAB's Comment:

We believe the proposed revisions covered the conforming changes in the Code. However, we have concern that some of the revisions look like rule-based (e.g. changes of PIE auditor after consecutive five years) instead of principle-based provision of the Code.

We think, in most of the developing countries, fixation of audit fee is big challenge. In addition to self-accountability, auditors are under pressure from different stakeholders including regulators on compliance of different regulations and standards maintaining of high level audit quality. To meet this expectation, in most of the cases audit firms require to increase its expenditure to maintain the quality of audit in compliance the regulations and standards. This is now a burning issue for many audit firms. We think that a comprehensive mechanism to address the level and fixation of audit fees should be addressed and suggested in the revision of the Code.

General Comments

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

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.

ICAB's Comment:

- (a) Those Charged with Governance, including Audit Committee Members – For listed entities Bangladesh Securities and Exchange Commission (BSEC) issued notification and also corporate governance code, where structure & accountability of the audit committee and reporting issues are mentioned. But there is no clear guideline for small businesses governance role here. We think IESBA can address to some extent on this part in general so that the local Institutes can refer the issue to the responsible regulators for best practice.
- (b) Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – the definitions of SMEs and SMPs need to be more clarified. Both the SMEs and SMPs have huge impact on business and practices globally, so IESBA may consider to insert separate section(s) on these two area as much as practicable depending on relevance in general.
- (c) Regulators and Audit Oversight Bodies – Financial Reporting Council (FRC) of Bangladesh was established under the Financial Reporting Act 2015 for the purpose of making provisions for establishing a Council for brining public interest entities' financial reporting activities under a well-regulated structure, setting standards for the accounting and auditing profession, properly observing, implementing, supervising and executing other activities relating thereto. Visibility and activities of oversight bodies have prominence in the global context; so, IESBA may consider provision in the Code on how to deal with oversight bodies in general.
- (d) Developing Nations – Bangladesh is a developing country, an emerging and very prospective economy too. The ethical issues are always have significance in developing

nation. ICAB has adopted the Code of Ethics as issued by the IESBA, although there are challenges in implementation of the Code in such an emerging economy. However, at present, we do not foresee any difficulties in applying them in our environment.

- (e) Translations – English is the medium of ICAB’s education and general communication. We adopt and use the original text of relevant standards and pronouncements issued by IFAC and IASB and we always prefer English medium. However, translation of the Code in local language may be considered in future subject to review and feedback from IESBA. In such a case, ICAB can provide resource person(s) to assist IESBA for translation in Bengali.