

**BY E-MAIL ONLY**

International Ethics Standards Board for Accountants

To: Mr. Stavros Thomadakis (Chair)

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Date: 11 May 2020

Subject: COMMENTS ON THE IESBA PROPOSED REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE

Dear Mr. Thomadakis,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on its Exposure Draft “Proposed Revisions to the Fee-related Provisions of the Code”. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR’s objectives are as follows:
  - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
  - Promoting collaboration and consistency in regulatory activity.
  - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
  - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation.

4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by IFIAR.
5. The IESBA Code of Ethics (the Code) is used by some IFIAR members, but not by all of them. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code, even though existing ethical rules or provisions in force at national level supersede those of the Code on certain aspects.
6. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent auditor behaviour: this means, for IESBA, to articulate clear ethical principles and supporting ethical provisions, along with clearly linked requirements, to promote better ethical behaviours and outcomes.
7. Please note that our comments are mostly focused on the provisions of the Code applicable in the case of audit clients that are Public Interest Entities (PIEs).

### **General remarks**

8. We support the direction of the exposure draft in addressing the fee-related issues in the independence for audit and review engagements. Especially, enhancement of transparency of information regarding fees for audit clients that are PIEs makes the communication between auditor and Those Charged with Governance (TCWG) more active and effective. We believe that this contributes to the improvement of audit quality.
9. We welcome the coordination efforts between the different standards-setting organizations. Of particular importance is the alignment of the IESBA and the IAASB provisions relating to the difference in scope for fee-related communication to TCWG. We further understand that the definitions of PIE and listed entity (as per IESBA) are currently under review and are being closely coordinated with the IAASB. Our assessment of the proposed changes in this exposure draft might change depending on the outcome of that project and its alignment to extant regulations across the member states of IFIAR.
10. Paragraph R410.4 requires firms or network firms to assess whether the threats to independence are at an acceptable level before accepting an audit or any other engagement for an audit client. We are supportive of this provision. We further suggest including, as application guidance, that this assessment could be completed before firms or network firms submit a proposal to an audit client.

11. The exposure draft includes factors that are relevant for the auditor in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client. One of those factors relates to the “significance” of the audit client to the audit firm. However, no indication about how to assess the qualitative and quantitative significance of the client is provided in the Code. We believe more specific descriptions are needed to reach a consistent application of this concept and to prevent abuse. The same difficulty has been identified in relation to what is considered to be “significant” or “a long time” when assessing the self-interest threat in cases where fees are overdue.
12. The concept of “significance” (e.g. R410.9 (b), R410.12 and 410.13 A3), “appropriate reviewer” (e.g. 410.5 A3, 410.9 A3) or “external review” (410.4 A2) could impair the effectiveness of the provisions. We propose that IESBA provide descriptions, explanations and/or give examples to help users apply the provisions in the Code. Without further explanation of these terms, consistent application of the Code will be difficult to achieve.

### ***Level of Audit Fees***

13. Factors relevant in assessing the threats due to the audit client payer model have been listed in 410.4 A2. The second bullet makes reference to the firm’s commercial and market priorities and position. However, we encourage further elaboration on the additional factor in 410.5 A2 that says “The firm’s commercial rationale for the audit fee” in order to distinguish clearly from the factor in 410.4 A2.

### ***Contingent Fees***

14. In the current draft, certain contingent fees are prohibited for Non-Audit Services (NAS) if they meet the criteria set out in R410.9 (a). We disagree with this approach, as even immaterial contingent fees to the firm for NAS could impair independence as it results in an alignment of interests. In addition, as further explained above, the use of the term “significant” in paragraph R410.9 (b) is unclear. We strongly recommend that contingent fees for NAS should not be permissible in any instance.
15. We further recommend that the description of contingent fee be revised to include the following situations, which we believe are also threatening situations to auditor independence relative to contingent fees:  
Any fee (1) established for the sale of a product or the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained,

or (2) in which the amount of the fee is otherwise dependent upon the finding or result of such product or service.

16. We also suggest that it be made clear that any service or product a firm or network firm provides for a commission directly or indirectly should be prohibited.

#### ***Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee***

17. We question the argument in the explanatory memorandum (paragraph 41) that audit practitioners might not be able to determine the exact ratio of fees for services other than audit to the audit fee in a timely manner. Given the disclosure requirements, this should be even less of an issue for firms that provide professional services to PIEs. In order to foster public trust in the audit profession we therefore suggest including a threshold not as a limit to further provision of NAS but as a trigger for a re-evaluation of the threats to independence. The percentage could be determined by feedback from stakeholders or existent restrictions introduced by jurisdictions if no empirical evidence is available. Availability and calculation of fee numbers should not present a challenge for firms given their expected internal control processes as well as their experience in providing professional services in more complex situations.
18. Another factor that could be considered in paragraph 410.10.A2 is the ratio of fees for services other than audit to audit fees charged over a number of years.

#### ***Total Fees – Fee Dependency***

19. In calculating total fees, clarification might be helpful as to what financial information the proposed guidance is referring to (410.13 A2), i.e. records from the bookkeeping system, fees disclosed in the financial statements/reported to TCWG or numbers submitted to the regulator.
20. 410.13 A4 proposes, “Having an appropriate reviewer who is not a member of the firm review the work” as a safeguard example. We understand from the explanatory memorandum (footnote 16 to paragraph 52) that the review to address self-interest and intimidation threats could be performed by a member of a network firm. This should be clearly articulated in the Code.
21. Similarly, “a professional accountant, who is not a member of the firm expressing the opinion on the financial statements”, shall conduct the engagement quality review in R410.17 and the reviews described in R410.14. We encourage the Board to add specificity to the description recognizing that a member of a network firm is eligible as a reviewer.

22. However, we do not believe it would be a sufficient safeguard alone to have a professional accountant, who is not a member of the firm review the work. Accordingly, we strongly suggest including additional safeguards and provisions on the appropriate reviewer concerning the reviewer's independence from the firm as well as from the audit client and the audit client's related entities
23. We also note a lack of clarity in the definition of the firm. Does the 15% threshold apply to the firm as a legal entity or to the way the firm operates in the market? For example, firms in specific jurisdictions comprise tax or legal services that represent separate legal entities, however are perceived as one (audit) firm providing services to the client.
24. R410.17 provides for one potential safeguard. However, if this is deemed unsuitable, no further actions are required by the firm. We believe that, if the firm determines that this safeguard is not appropriate, they should be required to develop a suitable safeguard to address the threat.

***Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities***

25. We support IESBA's proposal for specific disclosure of fee-related information both to TCWG and the public to mitigate independence threats in relation to PIEs.
26. We note that no specific reference to timing of the initial involvement of TCWG is made ("timely manner"). We propose to require communication of fee-related information to TCWG before any request for approval by TCWG of the appointment of the auditor to perform the audit engagement. This should also cover how the firm addresses threats to independence.
27. We encourage the Board to add more guidance on how to disclose fee-related information as required under 410.25 A3. For example, means of communication by which such information could be made public could include the transparency report or the website of the audit firm.
28. It is acknowledged that 410.25 A4 introduces the option to include fee-related disclosures in the Audit Report which has been discussed with the IAASB however is not yet reflected in ISA 700 nor, if applicable, in the respective local auditing standards.
29. We suggest aligning communication requirements to TCWG of audit fees and fees for services other than audit for PIEs and Non-PIEs. Should there be TCWG identified for a Non-PIE, we believe they should be informed and assess threats independence like for PIEs. However, requirements or guidance in this regard should be developed in close coordination with the IAASB.



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Should you wish to discuss any of our comments, please do not hesitate to contact me or Martijn Duffels, Chair of the IFIAR Standards Coordination Working Group.

Yours Faithfully,

A handwritten signature in black ink, appearing to read "F. Schneider". The signature is fluid and cursive, with a prominent diagonal stroke.

Frank Schneider  
IFIAR Chair

Cc: Duane Desparte, Vice Chair,  
Martijn Duffels, SCWG Chair,  
Carl Renner, Executive Director