

Proposed Revisions to the Fee-related Provisions of the Code

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (IESBA)

Joint submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

4 June 2020

Ref: TECH-CDR-1859

ACCA (the Association of Chartered Certified Accountants) and CA ANZ (Chartered Accountants Australia and New Zealand) created their strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of their members and students, sharing a commitment to uphold the highest ethical, professional and technical standards.

Further information about ACCA and CA ANZ's comments on the matters discussed here can be requested from:

Sundeep Takwani

Director – Regulatory Relations
ACCA

sundeep.takwani@accaglobal.com

+44 (0) 207 059 5877

Laura Murphy

Standards Manager
ACCA

laura.murphy@accaglobal.com

+44 (0) 207 059 5811

Amir Ghandar

Assurance and Reporting Leader
Chartered Accountants Australia and New Zealand

amir.ghandar@charteredaccountantsanz.com

+61 (0)2 9080 5866

Melanie Scott

Senior Policy Advocate – Reporting and Assurance
Chartered Accountants Australia and New Zealand

melanie.scott@charteredaccountantsanz.com

+61 (0)3 9641 7406

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of **227,000** members and **544,000** and future members based in **176** countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

Find out more about us at www.accaglobal.com

About CA ANZ

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

www.charteredaccountantsanz.com

GENERAL COMMENTS

ACCA and CA ANZ welcome the opportunity to comment on the proposals to revise the International Code of Ethics for Professional Accountants (including International Independence Standards) (**the Code**) to address fee-related provisions.

We are supportive of what the IESBA (**the Board**) is trying to achieve in addressing public perceptions and strengthening the International Independence Standards (**IIS**) within the Code. Most of the proposed changes are reasonable and represent a positive step forward, by responding to concerns about the independence of auditors and aligning the fee provisions to measures already adopted in some jurisdictions.

The revised guidance and application material on fee-related matters will assist professional accountants to meet their responsibility to comply with the fundamental principles and be independent. However, we have identified some areas of concern and these are highlighted in our responses to the questions raised where appropriate.

In particular, we have reservations about the proposed threshold for firms to address threats created by fee dependency on a non-public interest entity (**PIE**) audit. While we recognize there may be a threat to independence, the threshold level of 30% appears too high and the introduction of a “bright-line” threshold may detract from the underlying principles of the Code and adversely impact audit quality. We also have some concerns about the transparency of information regarding fees for PIEs, including the practicalities of obtaining and disclosing fee information in the absence of clear and consistent requirements for preparers in relation to disclosure of fee information for PIEs, which would be more appropriately achieved via accounting standards requirements.

The proposed guidance adds significant additional material to the Code and at times is quite verbose, so consideration should be given to whether it can be simplified or should not be included in the Code. The implementation of new fee-related provisions will entail significant changes to policies and procedures for **all** firms. In particular, the Board should be alert to the potential challenges for smaller firms, and businesses in some jurisdictions.

We strongly support the Board’s project to review the definition of a PIE used in the Code and to harmonise it, as far as possible, with the concept of an Entity of Significant Public Interest (**ESPI**) used in the International Auditing and Assurance Standards Board’s (**the IAASB**) standards. Further we encourage the Board to complete the revision of the definition of a PIE before finalising and issuing the revisions to Fees and Non-Assurance Services (**NAS**). This would allow stakeholders to reconsider the proposed revisions for Fees and NAS in light of any consequences for entities who may be newly captured by a revised PIE definition.

AREAS FOR SPECIFIC COMMENT

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)?

We believe there are inherent threats to independence within the audit client payer model. Therefore, 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). While we would hope that firms would be aware of **all** the potential threats to independence created by fees paid by the audit client and apply the conceptual framework to identify, evaluate and address them, we acknowledge that there is a need to raise firms' awareness and provide guidance. As some members in business will be acting as those charged with governance (**TCWG**), the Board should consider what guidance can be provided for members in business who are preparers on how they fulfil their role in making judgements and assessments in relation to auditor independence and fees.

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

We support the requirement for a firm to determine whether the threats to independence created by the proposed audit fees are at an acceptable level **before** accepting any form of engagement. However, there are concerns that smaller firms do not have sophisticated independence checking systems and the need to re-evaluate the level of threats may be difficult in practice as they may not identify changes that should trigger a re-evaluation. We suggest further guidance may be useful, for example on the types and level of change that would trigger a re-evaluation and also what constitutes adequate documentation of the re-evaluation.

(b) Before a network firm accepts to provide a service to the client?

See our response to Question 2(a) above.

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?

We believe the Board has sufficiently considered the factors relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audited entity and we have no further suggestions. We would not support the recognition of the existence of an independent committee advising the firm on governance matters that might impact the firm's independence as an example of a relevant factor in evaluating the level of fee-related threats. We have concerns about the operational cost of an independent committee, in particular for smaller firms, and we feel it would not deliver improvements in audit quality and auditor independence.

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 a network firm of services other than audit to the audit client?

The fee for an audit engagement is a standalone fee and should not be considered as part of the spectrum of fees charged to the audited entity for other services. We welcome the clarification of the impact of other services provided to an audited entity within the new requirement in paragraph R410.6. Nevertheless, we have concerns about the practicality and enforceability of this provision and we suggest further consideration is given to how this can be enforced in practice. The use of appropriate remuneration policies and firm culture to send clear messages to partners about how such decisions should be made is possible, but it is difficult to know or evidence what is actually influencing a partner's decision.

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

We support the guidance in paragraph 410.10 A1. Where a large proportion of fees charged by a firm to an audited entity is generated from services other than audit this creates a range of threats to independence. However, we have concerns about how the monitoring of fees can be operationalised and whether the additional costs of analysing fees (and changes in fees) may outweigh any benefits. Firms and networks already confirm that they are independent, further scrutiny of fees will not change that.

(b) Delivered to related entities of the audit client?

See our response to Question 5(a) above.

Fee Dependency 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?

We do not support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency for entities that are not PIEs. We believe that there is a risk that audit firms will focus solely on an absolute percentage threshold which would detract from the principles of the Code and adversely impact audit quality.

However, if the Board were to introduce a threshold for non-PIEs, we believe the proposed 30% in paragraph R410.14 is too high. There are significant variations in percentage fee dependency levels around the world and, in our opinion, an arbitrary threshold of 30% appears high in terms of the actual threat. Indeed, the Board acknowledges in the ED that *“the thresholds proposed are not scientifically determined”* and there is *“no empirical evidence as to what [the threshold] should be”*.

We believe that if a percentage fee dependency level is adopted in the Code, it should recognise differences in market structures in other countries and take account of the risk posed by non-PIE audits in different jurisdictions. Furthermore, it should be clear in the application material that the intention is to decrease fee dependency over the time period and that high levels of fee dependency should primarily be in start-up firms.

We would urge the Board to reconsider the proposals for entities that are not PIEs. In situations where fee dependency continues for an extended period, we believe firms should simply continue to comply with the fundamental principles and apply the conceptual framework and the general provisions within the Code.

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?

We do not support the proposed actions in paragraph R410.14 for non-PIEs. We believe the introduction of two alternative courses of action adds unnecessary complexity and risks the inconsistent application of safeguards. Furthermore, the proposed actions may also be impractical for some markets due to the limited availability of professional accountants to conduct a pre-issuance review of the firm’s audit work.

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?

We are generally supportive of the proposed safeguard to reduce the threat created by fee dependency in the case of a PIE to an acceptable level. However, some members expressed concern that the proposed action may be impractical for some markets due to the limited availability of professional accountants to perform a pre-issuance review. Furthermore, some local regulators discourage the involvement of third parties in the audit of PIEs and the expression of the audit opinion.

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?

We support the proposal to require a firm to cease to be the auditor if fee dependency continues after five consecutive years in the case of a PIE. We believe transparency is in the public interest and this requirement will ensure a firm remains independent and maintains its objectivity. However, we have concerns about unintended consequences arising from the requirement to resign and the operability of the proposed exception in some jurisdictions, as this could be burdensome for the auditors of smaller PIEs and the audited entities concerned.

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

We welcome the recognition that there may be compelling reasons for a firm to continue to be an auditor of a PIE after five consecutive years of fee dependency. However, we are concerned that the proposed exception provided in paragraph R410.20 may be impractical to implement for the reasons given in our response to Question 8.

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?

We support the public disclosure of fee-related information for PIEs as this provides more market information and enhances user understanding. It also recognises that several

jurisdictions already have laws and regulations regarding public disclosure of fee-related information.

However, we believe that any disclosures should be driven by accounting standards, and therefore the Code should not mandate such disclosures. An accounting standard requirement would ensure that preparers are required to make the public disclosures of fee-related information in the financial statements, and avoid the auditor having to disclose new information in the auditor's report if TCWG do not publicly disclose the fee-related information. While the desire to proceed with such a requirement in the absence of accounting standards makes sense, we would encourage the Board to work with the International Accounting Standards Board (**the IASB**) to achieve accounting standards change in this area.

In the absence of clear and consistent requirements for preparers in relation to disclosure of fee information for PIEs, we have some concerns about the practicalities of the Code imposing obligations on auditors to obtain and disclose fee information.

In addition, the implementation of the proposals in jurisdictions which do not have laws and regulations concerning the public disclosure of fee-related information could be particularly challenging and there may be adverse and unintended consequences from public disclosure. The Board should be alert to these challenges and allow exceptions to the disclosure requirements in certain circumstances.

We cautiously welcome the proposal to publicly disclose fee dependency over 15% for two consecutive years. While the proposal goes beyond the current fee-disclosure requirements of some national standard setters and regulatory bodies, where disclosure of fee dependency in relation to PIEs is limited to TCWG, we believe it would provide useful market information.

However, we are concerned that a "one-off" fee dependency may occur within a two-year period for good reason, yet under the proposal the firm would be required to disclose this publicly. As a result, it may be advisable to consider a longer period in order to take account of such exceptions. In our opinion, the disclosure requirements are not clearly articulated in paragraph R410.25(c) and we are uncertain if the wording "*if applicable*" adequately addresses situations where public disclosure might be inappropriate.

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?

We believe the Board should consider what guidance can be provided for professional accountants in business who are preparers on how they fulfil their role in making judgements and assessments in relation to auditor independence. This is vital in achieving transparency of fee-related information for PIEs.

(b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

We have no views or suggestions on this matter.

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 organizations, regulators and competition authorities.

We are aware that many of the fee-related proposals have already been adopted by some regulatory bodies and national standard setters, or incorporated in local legislation. For example, in the UK the Financial Reporting Council's *Revised Ethical Standard 2019* applies in the audit of financial statements and other public interest assurance engagements. We acknowledge that the proposals could raise potential issues in certain jurisdictions, however, we have no specific views on the operability of the requirements within the framework of national laws and regulations, including the interaction with national anti-trust 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?

We support the proposed consequential amendments to Section 905 in relation to assurance engagements as these provide greater clarity and recognise that there is also an inherent self-interest threat when fees for an assurance engagement are negotiated with and paid by the assurance client. In relation to overdue fees from an entity in relation to assurance services, we believe it would be appropriate to include a general expectation regarding payment of overdue fees before the assurance report is issued within Section 905, as this is generally accepted best practice for firms and would also be consistent with the proposals for audit engagements. We believe the proposed conforming changes to other sections of the Code are also reasonable.

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?

We are not aware of any other areas within the Code that may warrant a conforming change as a result of the proposed revisions.

Request for general comments

Those Charged with Governance (TCWG), including Audit Committee Members:

Regular and robust communication between firms and TCWG is critical to maintaining effective governance and financial reporting oversight. Enhanced communication and transparency of information regarding fees for PIEs better informs the views and decisions of TCWG and assists them in assessing auditor independence. Inevitably, the proposals will entail greater commitment from TCWG. However, we believe any concerns are outweighed by the public interest.

Small and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs):

SMEs and SMPs are important stakeholders in developing and enhancing the Code. It is within such organisations (with more limited resources, including fewer personnel) where changes in behaviours are best supported through clear guidance which is proportionate and scalable. The implementation of new fee-related provisions will entail significant changes to policies and procedures for **all** firms. However, the burden on SMEs/SMPs could be disproportionately high, particularly in jurisdictions where PIEs may be small, and the proposed changes may be too costly and impractical for some smaller firms and businesses. The development of IIS should command public trust, but the standards also need to allow for efficiency and choice.

Regulators and Audit Oversight Bodies:

Any changes to the Code must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the Code's requirements are comprehensive. Therefore, the drafting of the Code must be clear, and it must be drafted with due regard to enforceability.

Developing Nations:

Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by national standard setters and/or professional bodies. The provisions need to provide practical and effective guidance in respect of fee-related matters, in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations.

Translations:

Translation of the Code for adoption in various environments is a challenging process for translators. Changes inevitably create inefficiencies and place additional demands on translation resources which could threaten accurate translation of the Code and compliance. In our opinion, the proposals should be clear, consistent and logical, and a realistic translation period is required. Although, as drafted, the proposed revisions would be unlikely to present translation issues as they use generally understood phrases rather than specific terms, the Board should remain alert to this when proposing changes to the existing wording.