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31 August 2021

Board of Directors
Accounting Professional & Ethical Standards Board
Level 11, 99 William Street
Melbourne VIC 3000

Dear Board Members

SUBMISSION ON THE PROPOSED REVISIONS TO THE FEE RELATED PROVISIONS OF THE CODE

We appreciate the opportunity to provide comment to the APESB on their exposure draft for the proposed revisions to the fee related provisions of the Code.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full-service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We refer to our submission to the APESB on 16th April 2020 (copy attached) where we commented on the IESBA exposure draft on the proposed revisions to the fee related provisions of the Code. In that submission we supported the IESBA's efforts to enhance the fee related provisions of the code so that they remain robust and appropriate in enabling professional accountants to meet their responsibility to comply with the fundamental principles and be independent.

With respect to the proposed changes to the Australian Code of Ethics (APES110) in response to changes made by IESBA as well as incorporating recommendations from the Parliamentary Joint Committee (PJC) on the Regulation of Auditing in Australia, we continue to support the strengthening of the fees provisions in the Code to help increase transparency around audit fees and fees for other services.

We have considered the proposed changes to APES110 and attach our comments.

In summary, while we support the idea of enhancing the fee related provisions, further clarification is needed in some areas. The explanation in 410.3 A3 of what is included and excluded in audit fees is confusing and contradictory and requires further clarification. Also, fee dependency requirements require further clarification of how the referral source criteria should be applied.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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D BEDFORD

J MURPHY
T LAPTHORNE
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D Y HUNG
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Please contact either myself or Maxine Ambrosini, Director – Independence & Quality (03 86105257 or +maxine.ambrosini@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne
Partner



M Ambrosini
Director, Independence & Quality

Specific Comments

Specifically, APESB has requested respondents' specific comments and feedback on whether the intent and application material in proposed paragraph 410.3 A3 in relation to what is included and excluded in the term audit fees is clear to stakeholders.

410.3 A3 General

For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of **Financial Statements**. Where reference is made to the fee for the audit of the **Financial Statements**, this does not include any fee for an audit of **Special Purpose Financial Statements** or a review of **Financial Statements**. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Response: We find this section confusing and contradictory. The first sentence says 'audit fees comprise fees or other types of remuneration for an audit or review of financial statements'. The second sentence says 'this does not include any fee,..... or a review of financial statements'. So, review of financial statements is included in audit fees in the first sentence then specifically excluded in the second sentence. I am not sure what the intention is here, to include the review of financial statements or not or is it just to exclude the review of Special Purpose Financial Statements in which case it should state this ie 'does not include any fee for an audit or review of Special Purpose Financial Statements.'

Other Comments

410.4 A3 Fees Paid by an Audit Client

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** include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the **Firm's** commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the **Firm** or a **Network Firm**.
- The level of the fee in the context of the service to be provided by the **Firm** or a **Network Firm**.
- The operating structure and the compensation arrangements of the **Firm** and **Network Firms**.
- The significance of the client, or a third party referring the client, to the **Firm**, **Network Firm**, partner or **Office**.
- The nature of the client, for example whether the client is a **Public Interest Entity**.

- The relationship of the client to the **Related Entities** to which the services other than audit are provided, for example when the **Related Entity** is a sister entity.
- The involvement of **Those Charged with Governance** in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the **Firm's** audit work is subject to the review of an independent third party, such as an oversight body.

Comment: The factors identified in 410.4 A3 for evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client have been clarified to include factors that are more applicable to the Australian jurisdiction.

R410.7 Impact of Other Services Provided to an Audit Client

As an exception to paragraph R410.6, when determining the audit fee, the **Firm** may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an **Audit Client**.

Comment: Requirements sections are just that – requirements. It creates confusion around the necessity to do something when the word ‘may’ is included, as is the case in this section, where it says ‘the Firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.’ If this is going to be a requirement section the term used should be ‘shall’ or ‘must’. This same section in the IESBA code is guidance/application material, not a requirement, so it appears that the wording has been copied across from the IESBA code but it has been changed to a requirement in the Australian Code.

AUST R410.14.1 Total Fees – Fee Dependency

When the total fees in respect of multiple **Audit Clients** referred from one source represent more than 20% of the total fees of the **Engagement Partner**, an **Office** of the **Firm** or the **Firm** expressing the audit opinions, the **Firm** shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an **Acceptable Level**.

Comment: We note that this is an Australian only requirement. This requirement raises the following comments and questions:

- **This section implies that fees from referral sources will need to be documented and monitored to ensure they do not breach the 20% limit. This adds additional administration costs to firms**
- **Does this relate to a financial year or is it an infinite time limit ie, If a client is ongoing for many years after being referred to the firm by a particular referral source, are they still considered to be the referral source indefinitely?**

- **Where will firms document this information and how will it be monitored, as it is not currently a requirement of the transparency report or any other annual return/public document?**
- **What constitutes ‘referred’ and ‘referred from one source’? Presumably it means coming from one person/client but how much of a relationship is necessary from that person/client before it is considered a referral?**

Public Disclosure of fee related information

AUST 410.29.1 A1

Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients:

(a) Audit services - which includes:

- Audit Engagements and audits of Related Entities for Audit Clients that are Public Interest Entities;
- Audit Engagements and audits of Related Entities for which the Audit Client has direct or indirect control; and
- Review Engagements in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity.

(b) Audit-related services - which are services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:

- Reporting required to be provided by the external auditor by laws or regulations;
- Reviews of interim financial information;
- Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor’s report to ASIC on an Australian Financial Services licensee using Form FS 71);
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation; and
- Additional audits or reviews performed on financial information and/or financial controls that have been authorised by Those Charged with Governance.

(c) Other assurance services - comprise all [Assurance Engagements](#) other than (a) and (b) above. For example:

- audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus;
- services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and
- audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor’s report on the financial statements.

(d) Taxation Services - which comprises any [Professional Activities](#) performed by a [Member](#) relating to ascertaining a client’s tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to rely on the [Professional Activities](#). This includes:

- i. preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority's requests for further information;
- ii. Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements;
- iii. provision of tax planning and other tax advisory services; and
- iv. assisting a client in the resolution of tax disputes; and

(e) Other services - which comprise any service not covered in (a) – (d) above

Comment: Just a comment on the layout, Taxation services points are numbered (i – iv) and the other categories are bullet points. Consistency should be applied to the numbering.

These categories may require firms to implement changes to their billing systems/matter codes so that totals for each of these categories can be easily pulled together. For smaller firms this may be more difficult, and come with additional costs.

The aim of the provisions in 410.29 A1 to 410.30 A1 is to get all public interest entity clients to make the disclosure of the relevant fee information, however if they decide not to do that, the audit firm must disclose it per R410.31 and 410.31 A3 provides guidance on where this can be disclosed. We question whether it is appropriate for a professional standard setting body (APESB) to mandate disclosures in financial information for which neither they nor their members have responsibility to prepare. In reality, not all public interest entity audit clients will agree to publicly disclosing fees in accordance with the Code, therefore firms may need to disclose this in some situations. As the disclosure is required for each client not on a total firm basis, most of the options for disclosure by the firm as provided in 410.31 A3 (see below) don't seem appropriate. The firm website, transparency report or audit quality report would potentially be ok if it was total fees for all clients but not for individual client disclosures. We do not consider the audit report an appropriate place to disclose fees for the reasons documented in our submission from April 2020 (refer Q 11), however, if the public interest entity is not prepared to make the required disclosures, then an audit report qualification may need to be considered for non-compliance with disclosure requirements. A targeted communication to specific stakeholders, for example a letter to the shareholders, may require approval from Those Charged with Governance. We question whether a better solution might be for the APESB to lobby for a change to the laws/regulations requiring the disclosure.

410.31 A3

When disclosing fee-related information in compliance with paragraph R410.31, the Firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the Firm's website.
- In the Firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

Compensation and Evaluation policies

AUST R411.4

A Firm shall not evaluate or compensate a Key Audit Partner, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the Audit Clients of the Firm. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other services lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm's Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.

Comment: Clarity is required in relation to the terms 'indirectly' and 'success in selling'. This section could be interpreted as no non-audit services are to be provided to audit clients. The lack of clarity as to what and how 'indirectly' is to be determined and interpreted in a partnership with a profit-sharing approach, combined with the "success in selling" concept provides no guidance as to what is or is not permissible. What does 'success in selling' mean? A client asks for tax advice and is given the name of another partner, is that success in selling or simply providing an option for service? In a profit-sharing arrangement, does a service provided by another partner constitute an incentive as more profit for the firm is more profit for the individual? We also note that this is not limited to PIE clients but all audit clients, is that the intention? The final sentence 'this does not preclude normal profit-sharing arrangements between partners of a firm' requires clarification also because firms would be of the opinion that their current profit-sharing arrangements are normal as they may be the arrangements that have been in place for many years.

Submission on IESBA ED Proposed Revisions to the Fee related Provisions of the Code from 16th April 2020

Request for Specific Comments

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)?

Response: In principle we do not agree with this statement. The engagement to perform assurance services is two willing parties entering into a contract or business transaction for the supply and receipt of services. If the reward is not commensurate with the risk, then the auditor will not accept it. The premise that because the client is paying the audit fee, this creates a threat to the independence of the auditor to provide a report or outcome that will see the client continue to engage with the audit firm, goes against the basic ethical principles of an accountant/auditor. The implication that accountants/auditors would not uphold their ethical requirements at this basic level is not something considered worthy of having to document. It is akin to the doctor/patient transaction. Does a doctor have a self-interest in this relationship because the patient is paying them? Does the doctor make up illnesses to keep the patient coming back for treatment which in turn provides revenue for the doctor? An unethical doctor may, but not an ethical one. There will be unethical practitioners in every profession, but the majority of practitioners will uphold their most basic ethical principles.

The existing guidance that no one client should provide more than 15% of the total fees received by the firm, prevents a firm from being dependent on an audit client and subsequently being in a position where their independence may be impaired or that they may face an intimidation threat. Refer APES 110 para R410.4

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?

R410.4 Before a firm or network firm accepts an audit or any other engagement for an audit client, the firm shall determine whether the threats to independence created by the fees proposed to the client are at an acceptable level. The firm shall also re-evaluate such threats where appropriate during the engagement period for the audit if circumstances change.

Response: This provision is not overly different to the existing requirements in substance, but it is making it clear that this assessment must be made prior to accepting the engagement.

The guidance in 410.4.A2 which states “the significance of the client, for example to the firm, network or partner or office.”, may make it more challenging for some

partners with individually large clients to consider the independence aspect. This is likely to be a greater issue for larger audit firms with an international client base.

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?

Response: A requirement of this nature would add an additional level of administration and documentation of quality management procedures. Most large to medium firms would have a process like this in place already and smaller firms may not have the resources to allocate to such a committee nor would they be able to demonstrate that the committee is independent.

Further Comments – given the highly regulated environment in Australia with respect to auditors, these considerations seem unnecessary, however in jurisdictions where there is little or no regulation, these provisions may have some merit.

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?

***R410.6** 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*

Response: Yes, we support this requirement. There should not be an 'audit discount' or a 'package deal' on the audit fee if other services are provided. The audit fee should stand alone and reflect the matters identified in 410.22 A1 and 410.6 A2. 'Paragraph R410.6 is not intended to prohibit cost savings that can be achieved as a result of experience derived from the provision of services other than audit to the audit client.' However, we also acknowledge that when clients put the audit out to tender it is usually to test the market to see if they can get a better deal on 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 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?

410.10 A1 The evaluation of the level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focusses on the non-audit relationship, which might create a threat to the auditor's objectivity.

410.10 A2 Factors that are relevant in evaluating the level of such threats include:

- *The ratio of fees for services other than audit to the audit fee.*
- *The relationship to the audit client of the related entities for which the services other than audit are provided.*
- *The nature, scope and purposes of the services, including whether they are recurring services.*
- *The qualitative and quantitative significance of the client to the firm and to the network.*
- *The operating structure and the compensation arrangements of the firm and the network.*

Response: We are supportive of the guidance on determination of the proportion of fees for services other than audit set out in 410.10A1 and the relevant factors in 410.10 A2.

However, in a situation where 2 firms within a network have separate operating structures and compensation arrangements and both firms are providing services to the same non-PIE client for example, one firm performs the audit and the other firm is providing consulting services in relation to their retail operations and franchising model, how would this play out under these requirements? In a situation like this, the consulting services are likely to be of higher value than the audit fee but given the firms do not share profits, there would be no self-interest or intimidation threat to the firm performing the audit so the provision of these services would be permitted. Is this the intention of the provisions?

In addition, there is no definition of what “large proportion of fees” is in 410.10 A1 so this would need to be clarified for consistent application across firms and networks.

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?

R410.14 *When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:*

- a) *Prior to the audit opinion being issued on the fifth year’s financial statements, have a professional accountant who is not a member of the firm expressing the opinion on the financial statements review the fifth year’s audit work; or*
- b) *After the audit opinion on the fifth year’s financial statements has been issued, and before the audit opinion is issued on the sixth year’s financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements or a professional body review the fifth year’s audit work.*

Response: The provisions in R410.14 raise the following questions:

- **What is the significance of waiting until the 5th year?**
- **What are the consequences if the reviewer does not agree with the opinion? Do the 4 prior years audits then come into question?**
- **Will this actually achieve anything or just be a rubber stamp?**

- Will the reviewer have a self-interest threat also?
- What is the point of b) - reviewing the 5th years audit work after it has been completed and the audit opinion has been issued?

The situation where the total fees from one audit client that is not a PIE being >30% of total fees is unlikely to be an issue for large/medium firms. It is most likely to be an issue for smaller firms or new firms where there may only be one audit partner.

Other questions in relation to the independent reviewer:

- what is the role of the “reviewer”? Is it a formal EQCR type role in which they are part of the audit team?
- What independence requirements are then placed on that “reviewer”? Are they expected to provide a report or conclusion?
- What action is taken if there is an issue with the audit report?
- How is this individual insured?
- What’s their responsibility if there is future litigation?
- Would a member of a network firm fit the definition of ‘not a member of the firm expressing the opinion’ i.e. if the reviewer is from another network firm but different location, is this considered independent for this requirement?

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?

R410.14 *When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:*

- Prior to the audit opinion being issued on the fifth year’s financial statements, have a professional, accountant who is not a member of the firm expressing the opinion on the financial statements review the fifth year’s audit work; or*
- After the audit opinion on the fifth year’s financial statements has been issued, and before the audit opinion is issued on the sixth year’s financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements or a professional body review the fifth year’s audit work.*

Response: Refer to Q6 response

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?

R410.17 *When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year’s financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements (“pre-issuance review”) might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.*

Response: Similar to the response in Q6, this raises the following questions:

- What is the significance of waiting until the 2nd year?
- What are the consequences if the reviewer does not agree with the opinion? Does the prior years audit then come into question?
- Will this actually achieve anything or just be a rubber stamp?
- Will the reviewer have a self-interest threat also?

The situation where the total fees from one audit client that is a PIE being >15% of total fees is unlikely to be an issue for large/medium firms. It is most likely to be an issue for smaller firms or new firms where there may only be one audit partner.

Other questions in relation to the independent reviewer:

- what is the role of the “reviewer”? Is it a formal EQCR type role in which they are part of the audit team?
- What independence requirements are then placed on that “reviewer”? Are they expected to provide a report or conclusion?
- What action is taken if there is an issue with the audit report?
- How is this individual insured?
- What’s their responsibility if there is future litigation?
- Would a member of a network firm fit the definition of ‘not a member of the firm expressing the opinion’ i.e. if the reviewer is from another network firm but different location, is this considered independent for this requirement?

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?

R410.19 *Subject to paragraph R410.20, if the circumstances described in paragraph R410.17 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.*

Response: Yes, subject to R410.20, firm rotation would be the most appropriate course of action in this situation to truly overcome the self- interest threat.

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

R410.20 *As an exception to paragraph R410.19, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:*

- a) *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; and*
- b) *Before the audit opinion on the sixth and any subsequent year’s financial statements is issued, the firm engages a professional accountant who is not a member of the firm expressing the opinion on the financial statements to perform a pre-issuance review.*

410.20 A1 *A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client’s business.*

Response: Although it may be difficult in practice to justify the ‘compelling reason’ to a regulatory body, we support the idea that there may be exceptional circumstances which is consistent with a principles based set of auditing and accounting standards. Again, with part b) of this provision the questions around the reviewer’s role and responsibilities as per our response to Q6 and Q8 arise.

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?

R410.25 *The firm shall be satisfied that the following information is publicly disclosed in a timely and accessible manner:*

- a) *Subject to paragraph R410.26, the fee for the audit of the financial statements on which the firm issued an opinion, comprising*
 - i. *Fees paid or payable to the firm and network firms, and*
 - ii. *Actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement;*
- b) *The total amount of fees charged during the period covered by the financial statements for the provision of services by the firm or a network firm to the audit client, which, for this purpose shall include only related entities over which the client has direct or indirect control, other than as disclosed under (a); and*
- c) *If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arise.*

The requirements in subparagraphs (a) and (b) above may be met by compliance with laws and regulations which substantively satisfy the corresponding requirements.

410.25 A1 *The fees disclosed usually reflect the fees paid or estimated to be paid for the services based on the information available at the time of the disclosure. The fees paid or estimated to be paid for the audit engagement include all such fees paid or payable to firms in relation to the audit work performed on which the audit opinion is based.*

410.25 A2 *An example of when compliance with laws and regulations would not substantively satisfy paragraph R410.25 is in the case of disclosure of fees for services other than audit, the exclusion of fees for services provided by network firms to the audit client and related entities over which the client has direct or indirect control.*

410.25 A3 *Such information might be disclosed,*

- a) *By the audit client in its financial statements, annual report or proxy statement, or*
- b) *If not by the audit client, by the firm in a manner deemed appropriate for the circumstances.*

410.25 A4 *If the firm discloses the information required by paragraph R410.25 in the audit report, it would be appropriate to do so as part of the auditor’s other reporting responsibilities in accordance with ISA 700 (revised).*

410.25 A5 The firm might also discuss with the client whether disclosure of other information relating to fees might enhance the users' understanding of the fees paid or payable and how they might influence the firm's independence. The nature and extent of matters to be considered will depend on the facts and circumstances and might include for example:

- *Comparative information for the prior year's fees for audit and services other than audit.*
- *The nature of services and their associated fees as disclosed under paragraph R410.25 (b)*
- *Safeguards applied when the total fees from the client represent or are likely to represent 15% of the total fees received by the firm.*

410.25 A6 The disclosure is regarded as accessible if the information required by paragraph R410.25 is readily available for any stakeholder in a manner that stakeholders are specifically informed about or the firm has reason to believe that stakeholders know about.

Response: Whilst we consider that it is important for fees to be disclosed in the financial report, we do not consider the disclosure of fees to be an auditor independence issue. Provisions of this nature should be included in the accounting or auditing standards not the Code. It is not appropriate to include fee disclosures in the audit report. The auditor opines on the financial statements and the disclosure contained therein. A principle of the audit report is that the auditor does not make disclosures not already included in the financial statements.

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?

Response: IESBA should consult with the IASB with respect to disclosure of fee related information. This should be included in accounting standards not in the Code.

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.

Response: No comment

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?

Response: Yes, we support the proposed consequential and conforming amendments to Section 905 where we have supported the proposed changes to Section 410 as there need to be consistency in both sections.

In relation to overdue fees, as part of normal commerce the transaction (issuing of the assurance report) is sometimes concluded with an amount still to be paid/invoiced. While it would be nice to be paid prior to issuing the assurance report it is not necessarily normal commercial practice. It is also not permitted for the auditor to withhold their audit report for unpaid fees, so it would be inconsistent for this to be a factor for other assurance services. However, whilst we would not necessarily expect to obtain payment of all overdue fees before issuing the report for an assurance engagement, we would want assurances from the client that they will be paid in the near future.

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?

Response: none identified

Request for General Comments

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

- 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.

Response: no comment

- 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.

Response – our comments have been included as necessary in our responses to the Specific Comments above

- 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.

Response: no comment

- 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.

Response: no comment

- 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.

Response: no comment