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11 August 2021

Chief Executive Officer
Accounting Professional and Ethical Standards Board Limited (APESB)
Level 11
99 William Street
Melbourne Victoria 3000
Australia

By email: sub@apesb.org.au

Dear Channa,

Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia responded to the International Ethics Standards Board for Accountants (IESBA) consultation on this topic in June 2020.

Overall, CPA Australia is supportive of the APESB's proposed amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the "Code") outlined in its Exposure Draft (ED) issued in May.

However, we make the following observations and comments for consideration by the APESB.

- AUST R410.14.1. We recommend that to be consistent with other paragraphs in the Code covering similar concepts (i.e., R410.15 and R410.18), this paragraph should be amended to read "*When for each of five consecutive years the total fees …….*". Without having an appropriate timeframe specified (and whether the most appropriate timeframe is five years, or something less) it can create unnecessary challenges for newer firms that are building their client bases, or for firms that have been subject to an unusual one-off occurrence in one particular year.
- AUST R410.14.1. It is unclear from the wording of the paragraph when a referral is considered to have ceased to be a threat to independence. That is, once a client becomes an ongoing client of the auditor, does the initial referral by another source continue to be threat? Does it cease to be a threat after a certain number of years? Clearly, if the initial referral is considered to be part of the calculation of the 20% every year, for the purposes of this paragraph, an audit firm will reach a stage where they are unable to receive referrals from a particular source many years (maybe never) after initial referrals are made. Clarity on this point is required.
- AUST R410.14.1. The APESB should consider clarifying why it opted for a 20% threshold for this requirement, rather than a 15% (for audit clients that are public interest entities) or a 30% (audit clients that are not public interest entities) threshold that is used in other parts of the proposed revisions. The decision to specify 20% seems arbitrary and so should be explained in the Basis for Conclusions that is published when the revisions are finalised and issued.
- AUST R411.4. CPA Australia recognises that this proposed paragraph effectively extends (from a partner's Audit Client to the Audit Clients of the Firm) the prohibition that currently exists in R411.4; and that it follows from a recommendation made by the recent report of Parliamentary Joint Committee on

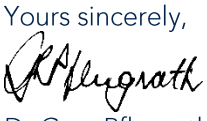
Corporations and Financial Services Inquiry into Regulation of Auditing in Australia. While generally supportive of its inclusion, feedback from members suggests that it is important that the prohibition does not prevent a partner from fulfilling his/her responsibilities as a partner. Moreover, as an alternative to a prohibition, consideration might be given to having full disclosure and transparency requirements where a partner secures non-assurance service business from a client that is not his/her specific client.

- **410.12 A3; third dot point**. Clearly, the "ability" of an audit client to pay overdue fees is a serious consideration, and directly impacts the audit that is performed. That is, if an auditor assesses that a client's inability to pay is connected to the solvency/going concern of the client, the financial reporting framework used and the way the audit is conducted, is directly affected. While **R410.13 (b)** states that a Firm should consider whether to continue with an engagement in these circumstances, it may not always be possible to take that course of action. Consideration might be given to providing more guidance (and/or a reference to appropriate guidance) for Firms where this situation arises.
- **R410.28**. It is not clear that the implications of having an auditor advise the client's Those Charged with Governance (TCWG) that they have become a client which pays them fees that amount to over 15% of the Firm's total fees, have been fully considered and explained. Arguably, by doing so, it creates or heightens the potential intimidation threat, and may embolden the client to attempt to exert greater undue influence. Also, it potentially creates a situation where safeguards will be introduced (at a cost), that will increase the fees being paid by the client which then potentially heightens the perceived fee dependency. Firms may benefit from greater clarity – for example, the objective/purpose of the communication –and guidance with respect to how such communications with TCWG should occur, as well as the most appropriate timing of them.
- **R410.31**. While CPA Australia recognises that this situation is unlikely to occur in Australia – given the reporting and disclosure requirements for most public interest entities – it is inappropriate for an auditor to disclose information about engagement fees/commercial transactions, that is the responsibility of the client to disclose. Arguably, it is tantamount to a threat by the auditor to the client: "disclose or else". Moreover, it is not clear that it is the role of the IESBA, or the APESB, to specify reporting and disclosure requirements for companies. This is the role for financial reporting standard setters or regulators. While a discussion and encouragement by the Firm to TCWG to make such disclosures (as per **R410.30**) is appropriate, consideration might be given to deleting **R410.31** (and the associated explanatory paragraphs).
- **410.31 A3, fifth dot point**. Following on from the previous point, should R410.31 remain, the auditor's report is arguably not the right place for such a disclosure to be made. Moreover, inclusions in an auditor's report are for the IAASB/AUASB to determine, not the IESBA/APESB.

With respect to your request for specific comments on proposed paragraph 410.03 (factors for evaluating the level of threats) , the last dot point – *Whether the quality of the Firm's audit work is subject to the review of an independent third party, such as an oversight body* – is a little unclear. That is, could the threat be considered reduced when the Firm knows that a particular audit, or set of audit files pertaining to an audit, will be subject to an independent review? Or could the threat be considered reduced merely because the Firm itself is subject to regular review by an oversight body, even if a particular audit is not chosen for explicit review?

If you have any queries about this submission, please don't hesitate to contact Ms. Clare Bannon, Senior Manager, Professional Standards, Professional Standards and Business Support on Clare.Bannon@cpaaustralia.com.au or +613 9606 9865 or me on gary.pflugrath@cpaaustralia.com.au or +613 9606 9941.

Yours sincerely,



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