

6 September 2021

Nancy Milne  
Chair  
Accounting Professional & Ethical Standards Board Limited  
Level 11, 99 William Street  
Melbourne VIC 3000

Dear Ms Milne

**Re: Exposure Draft ED 03/21 Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)**

On behalf of the Institute of Public Accountants (IPA), I submit our review of exposure draft ED 1/21 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*.

The proposed amendments to the Code responded to changes made by the International Ethics Standards Board for Accountants to the *International Code of Ethics for Professional Accountants (including International Independence Standards)*. The IPA supports the continued compliance with IESBA Code and the proposed amendments that were addressed through the IESBA's due process and subsequent deliberations. Our submission is therefore directed at the specific Australian amendments proposed by the Board.

**Independence**

In considering the proposed amendments, we are particularly mindful of the following:

- The preface to independence standards Parts 4A and 4B to the Code which states:  
*'The concept of Independence is fundamental to compliance with the principles of integrity and objectivity. This Code adopts a conceptual framework that requires the identification and evaluation of threats to Independence so that any threats created are eliminated or reduced to an Acceptable Level by the application of safeguards.'*
- The description of independence:  
*'Independence is linked to the principles of objectivity and integrity. It comprises: (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm's, or an Audit Team member's, integrity, objectivity or professional scepticism has been compromised.'*

## **Total fees from a referral**

AUST R410.14.1 proposes that *‘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.’*

We note the comment made in the Board’s media released dated 28 May 2021 as to a reason for this specific Australian proposed amendment: *‘APESB has also considered and accepted a request from the regulators to create a threshold to assess fee dependency on a referral source that refers multiple audit clients to a firm and determined to extend this threshold to apply to individual partners or an office within the accounting firm.’*

We believe it is important for Board to reflect the views of regulators and others as proposals are developed. The basis of conclusions should refer to such views.

We consider that the proposed amendment is consistent with the principle in paragraph 410.14 A1: *‘When the total fees generated from an Audit Client by the Firm expressing the audit opinion represent a large proportion of the total fees of that Firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.’*

These threats also exist where a large proportion of the fees are referred from one source. Such referrals are common for self-managed superannuation fund audits. It is appropriate for APESB to address this issue as IESBA’s Code contains no corresponding requirement.

We note that the Board has framed AUST R410.14.1 as a standalone requirement. In doing so, the requirements of total fees from an audit client that is a not a public interest entity (R410.15-17) or public interest entity (R410.18-21) are not considered.

We continue to have serious concerns about the approach taken by the IESBA in relation to these paragraphs:

- For a non-public interest entity – the time frame of five years is too long, the threshold of 30 per cent too high, and an assessment at firm level is inappropriate as threats are more likely to occur at the individual engagement partner and office level (it would be rare that a threat to independence would exist at higher level – the firm), and
- For a public interest entity – the threshold of 15 per cent is too high, and an assessment at firm level is inappropriate as threats are also more likely to occur at the individual engagement partner and office level (it would be rare that a threat to independence would exist at the higher level – the firm).

Given these concerns, we do not believe that these requirements are appropriate for addressing the circumstance where a large proportion of the fees are referred from one source.

Furthermore, we do not consider R410.15-17 and R410.18-21 to be appropriate requirements for assessing fee dependency, protecting independence and maintaining the public interest for the reasons stated.

The additional AUST paragraph overcomes the flaws in the IESBA’s approach. It identifies a specific benchmark 20 per cent, it specifically targets the engagement partner, an office of the firm and requires an action to evaluate the threat, apply safeguards to reduce the threat to an acceptable level within this framework.

Whilst the benchmark of 20 per cent is arbitrary, we consider it reflects ‘a large proportion’ as would 10 per cent threshold.

Furthermore, we do not consider an evaluation of the threat(s) and application of safeguards with the context proposed to be onerous for the audit firms affected.

We recommend that the proposed Aust paragraph be clarified to state that this assessment is to be undertaken annually and at the same date each year.

### **Disclosure of fees for audit and other services**

AUST 410.29.1 A1 proposed that *‘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’*.

We are of the opinion that mandated disclosure of fees for audit and other services in financial statements should be prescribed by the Australian Accounting Standards Board. If AASB does not mandate such disclosures, then the Auditing and Assurance Standards Board should require disclosure in the independent auditor’s report.

In the interim, we support the proposed disclosure subject to the following specific comments. When AASB or the AUASB has mandated disclosure and those disclosures have become operative, then AUST 410.29.1 A1 should be removed.

The following comments are made on the proposed requirements:

- Disclosures of audit and other fees should be recommended to client for disclosure in the financial statements. Where such disclosure is not made, the auditor should consider disclosure in the independent auditor’s report. The first sentence of AUST 410.29.1 A1 needs to be clarified in this respect
- There is no reference to the amounts for the each of services listed
- There is no reference to disclosure of the specific services provided. The probable default will be to boarder headings of ‘audit services’, ‘audit-related services’, ‘other assurance services’, ‘taxation services’, and ‘other’, rather than specific nature of service provided
- We note the drafting practice of current AASB standards to contain a disclosure objective. The proposed considerations would benefit from a statement as to what objective is to be achieved and then application guidance as to how that may be achieved, and
- We understand that both the AASB and AUASB have considered the nature of fee disclosures and any interim disclosure considerations proposed by APESB should be cognisant of deliberations of the other standard-setting boards.

### **Compensation and evaluation policies**

The proposed amendments concerning the incentivisation of audit partners comes from Joint Committee (PJC) on the Regulation of Auditing in Australia. We support, APESB acting in a timely manner on those proposals that are relevant to the Code.

AUST R411.4 proposes that *‘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.’*

There are two requirements in this paragraph as identified by ‘shall’, these should be addressed in separate paragraphs.

We support the first requirement being a clarification of R411.4 with references to: ‘either directly or indirectly’ and the extension to any audit client of the firm rather than just those of the key audit partners.

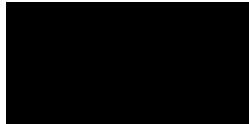
In relation to the second requirement, examples should be provided of 'reasonable steps'.

### **Operative date**

We support the proposed operative date of the amendments of from 1 January 2023 and the encouragement for early adoption.

If you would like to discuss our comments, please contact me or our technical adviser Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)), GAAP Consulting.

Yours sincerely



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Group Executive, Advocacy & Policy  
Institute of Public Accountants

Cc Chair of AASB and Chair of AUASB

### ***About the IPA***

*The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 42,000 members in more than 80 countries, including Australia, the IPA represents members and students working in industry, commerce, government, academia, and private practice. Through representation the IPA ensures that the views of its members are voiced with government and key stakeholders including the Australian Tax Office, Australian Securities & Investments Commission, and the Australian Prudential Regulation Authority on issues affecting our members, the profession, and the public interest. When the IPA merged with the UK's Institute of Financial Accountants, the IPA Group became the world's largest accounting body in the SMP/SME sector.*