IESBA Independence II
Exposure Draft Comments

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1.	General	We believe the primary objective of the strengthening of the independence provisions of the Code should be to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality.	ACCA	General Comment
2.	General	The Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the exposure draft, *section 290 & 291 Independence Part 2 of the Code of Ethics for Professional Accountants* issued by the International Ethics Standard Board for Accountants (IESBA). APESB commends the IESBA's issue of an exposure draft on *S. 290/291 Independence Part 2* with a view to updating and revising the existing requirements in the *Code of Ethics for Professional Accountants* ("the Code"). APESB supports the revision of Section 290/291 Independence provisions relating to internal audit, fee size and contingent fees. APESB has reviewed the proposed revisions and offers the following general comments for IESBA's consideration.	APESB	General Comment
3.	General	We refer to our comments on the application of the approach to independence in our previous submission on the proposed revision to section 290 and 291 of the Code of Ethics dated 3 May 2007. We continue to be strongly of the view that our comments need to be reflected in the Code of Ethics because independence is so fundamental to the accountancy profession. Our comments on the proposed revisions are based on this position.	AGNZ	General Comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
4.	General	We are pleased that the IESBA is continuing with the plan to finalise revisions to the areas of economic dependence, contingent fees and internal audit services at the same time as the other revisions that are being made to Sections 290 and 291. We deal with comments on each of these areas separately below.	APB	General Comment
5.	General	We and our members support the IESBA's efforts to improve the provisions of the Code relating to auditor independence. We note that it is also important that standards be given time to be disseminated, understood and to have effect, prior to subsequent amendment. Given the recent proposed revisions to Sections 290 and 291 issued December 2006 and the changes on networks also issued in 2006 we trust that this does not herald a series of partial changes to the Code.	Australia	General Comment
6.	General	Overall we are pleased to see that the approach taken in respect of the three areas addressed in this consultation remains that of considering threats and applying appropriate safeguards. We have commented on a number of previous occasions as to why we consider that this approach is not only more efficient and appropriate in an international code than a rules based approach, but also more robust. In terms of detailed comments there are a number of observations on the wording proposed set out below. We are concerned particularly that the introduction of a specific percentage figure into the fee dependency discussion should not be the prelude to an absolute prohibition at a later stage. An absolute percentage limit for fee dependency was introduced for audits in the United Kingdom in 2004 which resulted in problems for a number of small practitioners that could have been dealt with by other means.	ICAEW	General Comment
7.	General	We are in support of the Board's initiative to enhance the independence provisions of the Code. In general, we believe that the revisions and additions proposed by the ED are appropriate.	PAOC	General Comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
8.	General	Having has a closer look at the proposed amendments, we didn't come across any major issues which would cause fundamental discussions. Therefore, we're renouncing to express any comments on the proposed independence regulation.	SICATC	General Comment
9.	General	As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting. As we review proposed auditing, ethics and independence standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the subject area being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable. Our comments in this letter reflect a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.	IOSCO	General Comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
10.	General	The Basel Committee on Banking Supervision (Committee) welcomes the opportunity to comment on your recent exposure drafts on auditor independence. The Committee has a strong interest in promoting a high quality international code of ethics for accounting firms and auditors, and believes that these exposure drafts include many useful proposals. The Committee strongly believes that auditor independence is at risk when firms are able to provide, on a concomitant basis, external and internal audit services to a significant public interest entity (eg a bank). In these cases, the self-review threat and management threat can become inappropriately high. Furthermore, the guidance on mitigating self-interest threats related to audit fees should be enhanced. Please find our detailed comments in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, chaired by Ms Sylvie Mathérat, Director of Commission Bancaire in France, and approved by the Basel Committee. The Committee trusts that you will find its comments useful and constructive.	Basel	General Comment
11.	General	We are pleased that the IESBA has addressed and proposed further guidance on the independence implications of Internal Audit Services and Fees including Contingent Fees. Subject to the following comments we support the proposals in the Exposure Draft.	CICA	General Comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
12.	General	The Basel Committee on Banking Supervision[1] has a strong interest in promoting a high quality international code of ethics for accounting firms and auditors and has carefully analysed the proposals of the International Ethics Standards Board for Accountants (IESBA) pertaining to the proposed revised section 290 of the code of ethics: independence – audit and review engagements and proposed section 291 of the code of ethics: independence – other assurance engagements (the Code). The Committee has two major observations. The Committee is concerned about whether the revised section provides sufficient robust guidance about providing internal audit services to public interest entities. In particular we believe that the self-review threat can become too significant if internal audit services are provided to entities of significant public interest, in particular banks. The Committee is of the view that, due to the level of public interest in such entities, a firm that audits the financial statements should not provide internal audit services to these entities in cases where the internal audit work would be relied upon in the course of auditing an entity's financial statements or where the firm personnel providing the internal audit service would undertake part of the role of management. These circumstances would impose a self-review threat or a management threat, respectively, that safeguards could not mitigate. The Committee agrees with the IESBA that a self-interest threat can be created when an auditor becomes dependent on fees from an audit client. The proposed revision of the Code to provide additional guidance with respect to the relative size of fees from an audit client that is an entity of significant public interest could be strengthened and enhanced by modifying the tone, expanding the requirement's scope, and providing background information on the threshold percentage.	Basel	General Comment – matters are expanded in specific comments below

[1] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities, which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

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13.	General	Overall, as stated in our submission letter dated 2 May 2007 on the IESBA December 2006 Exposure Draft on Auditor Independence, we are supportive of the current work of the IESBA which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years and that the last substantive revision to the IFAC Code of Ethics for Professional Accountants was made in November 2001.	HKICPA	General Comment
14.	General	In general terms we are pleased to see that IESBA is following a principles-based approach to deal with independence issues or the threats and safeguards approach. Nevertheless, we have to express our concern, already stated in our previous letter on the last ED of the Code of Ethics, on some turn of the Code to a rules-based approach. Principles or safeguards and threats approach is more robust as far as it states the spirit instead of a rule that may not cover all the situations that the professional may face in carrying out a professional engagement.	ICJCE	General Comment
15.	General	We believe that the proposals contained in the exposure draft enhances the objective of the IESBA to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.	ICPAS	General Comment
16.		**Audit small entities**		

X ref	Par Ref	Comment	Respondent	Proposed Resolution
17.	Small entities	We believe the public interest is best served by developing principles-based standards, which cater for varying circumstances often applicable to audits of small entities. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. However, the examples should not become prescriptive rules; the aim should be to deter auditors from 'tick-box' compliance with the form of the requirement rather than the substance (see our comments under *Fees – Relative Size*). In particular, the introduction of a fixed percentage limit on fees from an entity of significant public interest might have a disproportionate impact on smaller audit firms, which may further hinder small audit firms from becoming auditors of entities of significant public interest in some jurisdictions.	ACCA	Discussed by IESBA at June 2007 meeting agreed issue to be addressed as part of discussion of each specific topic considering whether individual proposals are consistent with a principles-based approach.
18.	Small entities	NIVRA examined this subject in its comment dated April 27th 2007 on the Exposure Draft of December 2006 on section 290 and 291 of the Code of Ethics. All remarks in these comments are equally valid for the current Exposure Draft	NIVRA	Discussed by IESBA during consideration of IT1

X ref	Par Ref	Comment	Respondent	Proposed Resolution
19.	Small entities	APESB has reviewed each section of the proposed revisions to the Code in providing our view on the application of the proposed changes in respect of audit or assurance engagements of small entities: *Internal Audit Services* We consider independence in relation to external audit and management functions as essential therefore regardless of an entity's size, the requirements and safeguards detailed in respect of internal audit services should be applied by all entities. *Fees – Relative Size & Contingent Fees* The Code allows for a degree of judgement to be incorporated when determining whether or not safeguards are required and what safeguards will be deemed appropriate in the circumstance. Where administrative burdens of the suggested safeguards are considered to be costly or inappropriate for small entities, alternatives such as disclosure to governing bodies of fee details may be adopted. Given the Code's apparent flexibility in this area, we do not believe any additional special considerations are required in respect of audits of small entities.	APESB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
20.	Small entities	In the Explanatory Memorandum to the ED, views are requested on whether issues relating to the audit of small entities and application of the Code in developing nations have been taken into account appropriately. In respect of both of these important areas we are of the view that interests are best served by adhering as closely as possible to the principles-based or threats and safeguards approach, which allows the right solutions in the varying circumstances often applicable to small audits and in developing nations. Guidance on application can, as proposed, be developed outside of the code of ethics, rather than adding to inflexible and often inappropriate absolute rules. More specifically, we refer to our comments under 'Fees – Relative size' for our comments on the imposition of a fixed percentage or absolute limit in relation to the determination of the appropriate relative size of fees to be received from an entity of significant public interest. This might have a disproportionate impact on smaller audit firms and may further hinder small audit firms from becoming auditors of entities of significant public interest in some jurisdictions.	FEE	Discussed by IESBA at June 2007 meeting agreed issue to be addressed as part of discussion of each specific topic considering whether individual proposals are consistent with a principles-based approach.
21.	Small entities	We have no comment to make on the application in audits of small entities.	AGNZ	General comment
22.	Small entities	Proposed revisions are appropriate	RM	Supportive comment
23.	Small entities	In our view these amendments should apply to all applicable entities as defined in the exposure draft amendments, irrespective of the size of the entity.	IRBAA	Supportive comment
24.	Small entities	The considerations regarding small size entities have been dealt with appropriately.	ICAP	Supportive comment
25.	Small entities	We believe that the considerations regarding the audit of small entities have been dealt with appropriately.	DTT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
26.	Small entities	The definition of "small" entities is not within our standards. We question the use of ethical standards that imply an ethical difference between entities based on size or other criteria	CPAA	General comment
27.	Small entities	The text of paragraph 290.190 refers to six conditions for an audit client to ensure that performing internal audit services does not threaten independence. In a small entity, the condition b (the client designates a competent employee, preferably within senior management, to be responsible for internal audit activities) is not easy to fulfil. In addition, the text of paragraph 290 .191 refers to two types of possible safeguards for the professional accountant For small firms, only the safeguard consisting to make use of the independent review performed by an external professional accountant adequately qualified or otherwise advise (as necessary) is generally possible.	CNCC OEC	No change– this requirement is in the existing Code. It is important that the client designate a competent employee to be responsible for the internal audit activities.
28.	Small entities	Members providing audit services to smaller entities continue to voice their concerns regarding the context of governance issues and safeguards applying only to larger firms and clients.	Australia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
29.	Small entities	We recognize the challenge faced by the IESBA in setting requirements that are suitable for application across a range of engagements and by firms ranging from sole practitioners to the larger international accounting firms. Despite this, we endorse the principle of having one globally applicable Code of Ethics for Professional Accountants. However, we are concerned that the proposals in the Exposure Draft are geared more towards providing an optimal solution for the larger firms and engagements. This focus has resulted in proposals that in many cases may result in impractical requirements and/or disadvantageous cost-benefit outcomes for Small and Medium-sized Enterprises (SMEs) in that the cost of the audit is significantly greater than the benefits to the users of the auditor's report All companies incorporated in Hong Kong are subject to a statutory audit and there are currently approximately 600,000 such companies with approximately 1000 being listed companies and the rest primarily SMEs. Furthermore, approximately 83% of the accounting firms in Hong Kong are sole practitioners with another 13% having only two partners (this group is hereafter referred to as "sole practitioners and small accounting firms"). It is very common for Hong Kong sole practitioners and small accounting firms to provide both auditing and non-auditing services to the abovementioned SMEs and accordingly, we request the Exposure provides more guidance on safeguards that may be applicable for sole practitioners and the small accounting firms. In summary, we recommend that the IESBA reconsiders the proposals in the Exposure Draft and provides more guidance on safeguards applicable to sole practitioners and small accounting firms to ensure that the benefits of the changes outweigh the costs to SMEs. Under a principle-based approach, there should be safeguards and practical relief for all practitioners rather than rules-based outright prohibitions. The rewrite of this Independence component of the Code is substantially rules-based rather than principles-based. In this regard, we also encourage the IESBA to prioritize the redrafting of the entire Code using a similar drafting convention to that used by the International Auditing and Assurance Standards Board in its Clarity project.	HKICPA	The mandatory safeguards provided in paragraph 290.190 are unchanged from the existing Code. Drafting conventions project addressing the implications of the IAASB clarity project on the Code

X ref	Par Ref	Comment	Respondent	Proposed Resolution
30.	Small entities	We note that the consultation paper requests views on whether issues relating to the audit of small entities and application of the Code in developing nations have been taken into account appropriately. In respect of both of these important areas we are of the view that interests are best served by adhering as closely as possible to the principles based approach, which allows the right solutions in the varying circumstances often applicable to small audits and in developing nations. Guidance on application can be developed (as you propose to do in respect of the audit of small entities) outside of the Code, rather than adding to inflexible and often inappropriate absolute rules.	ICAEW	See discussion above on principles-based approach
31.	Small entities	The Consultation Paper requests comments on whether issues relating to the audit of small entities and application of the Code in developing nations have been taken into account appropriately. We believe that interests are best served by following the principles-based approach, which allows the right solutions in the varying circumstances often applicable to small audits and in developing nations. Guidance on application can be developed outside of the Code, rather than adding to inflexible and often inappropriate absolute rules.	CARB	See discussion above on principles-based approach
32.	Small entities	The ICJCE is of the opinion that the principles-based approach is the best way to tackle with the independence issues in a manner that is applicable either to big, medium or small entities. In this regard our comments on the relative size of fees have also this objective.	ICJCE	See discussion above on principles-based approach
33.	Small entities	We believe that the impact on smaller firms in relation to the independence threat created by one client comprising a major portion of the firm's income is much greater than in larger firms. Furthermore, we believe that smaller firms would in most instances be faced with this threat when they start up a practice, more so than for larger firms	IRBA	Matter addressed under fees relative size below

X ref	Par Ref	Comment	Respondent	Proposed Resolution
34.	Small entities	We are concerned that the definitive threshold in paragraph 290.215 in respect of audit clients that are entities of significant public interest may further hinder smaller firms from becoming auditors of entities of significant public interest. Please refer to item 2.2 for details.	WpK	Matter addressed under fees relative size below
35.		**Developing Nations**		
36.	Developing nations	The comments noted in relation to small entities above also apply	ACCA	General comment
37.	Developing nations	We have no comment to make on the application of the proposed revisions to developing nations.	AGNZ	General comment
38.	Developing nations	The definition of "developing" nation is not within our standards. Why would there be a difference in ethics based on level of `development'?	CPAA	General comment
39.	Developing nations	We do not foresee any difficulties in applying the proposed provisions in South Africa	IRBA	General comment
40.	Developing nations	The proposals are necessary, practical and may be applied in all environments	ICAP	General comment
41.	Developing nations	We refrain from commenting on issues relevant to developing nations because these issues are not relevant to us.	WpK	General comment
42.	Developing nations	We have not identified any foreseeable difficulties in applying the provisions in a developing nation environment, except that in some developing countries.	DTT	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
43.	Developing nations	We believe that the Board should consider allowing audit firms in such countries the option of specifically disclosing areas of non compliance with the IFAC Code within the audit report on the financial statements of the entity to which the non compliance relates. Alternatively, the Board could specifically develop provisions/exemptions for audit firms in such circumstances akin to the UK Auditing Practices Board's 'Provisions Available for Small Entities'.	ICAS	Minority comment – no change
44.		**Translation**		
45.	Translation	We have no comment to make on translation issues.	AGNZ	General comment
46.	Translation	We do not foresee any potential translation issues in South Africa	IRBA	General comment
47.	Translation	We have not identified any potential translation issues.	DTT	General comment
48.	Translation	We are not aware of any translation issues at this time, but we would like to point out that such issues may arise during the translation process, which will commence once Section 290 and Section 291 have been issued.	WpK	General comment
49.		**Principles approach**		
50.	Principles approach	We support, therefore, the aim of the IESBA to retain the principles–based approach to addressing the areas of internal audit, fees and contingent fees. We are, nevertheless, concerned that proposed revisions has further moved the Code to become a legalistic, rules-based standard, which can only encourage creative, loophole-based avoidance. We believe the robustness of the principles-based approach is being undermined by the proliferation of detailed underlying rules	ACCA	Discussed by IESBA at June 2007 meeting agreed issue to be addressed as part of discussion of each specific topic considering whether individual proposals are consistent with a principles-based approach.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
51.	Principles approach	There is a clear preference for retention of the principles-based approach, which requires threats to independence to be evaluated and if possible, eliminated or reduced to an acceptable level by safeguards - failing which the particular assignment should not be undertaken. While we support the IESBA's efforts to create consistency internationally where possible, our concern is that this does not lead to the imposition of an additional layer of prescriptive rules.	Australia	See above
52.	Principles approach	We have always been a strong advocate for the continued application of a principles-based threats and safeguards framework, therefore we welcome the retention of this approach in the three areas considered in this Consultation Paper.	CARB	See above
53.	Principles approach	In our opinion, the proposed new requirements for Internal Audit, Fees – Relative Size and Contingent Fees outlined in the ED move the code further towards a set of rules. CIMA's position has been and continues to be that the code should not be made longer or more detailed, as it risks becoming difficult for users to follow, and so less effective. In particular, we are concerned that the focus on independence for auditors/assurors within the code and the level of detail in Sections 290 & 291 may deter accountants working in business from reading or consulting the code, as the relevance to them becomes diluted. Increasingly specific examples also pose a risk to the principles-based approach, creating more rule-like requirements. We would encourage the IESBA to think about whether such specific requirements, where deemed absolutely necessary, can be situated outside of the code itself so as not to impinge upon the principles-based approach	CIMA	See above
54.	Principles approach	We had previously commented in our letter dated April 26, 2007 on the increasing tendency for the IFAC Code of Ethics to become rules rather than principles-based.	IDW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
55.	Principles approach	As stated in our comment letter of April 27, 2007, regarding the Exposure Draft of Section 290 and 291 of December 2006, we continue to be concerned at the increasing tendency for the Code to become rules rather than principles based. We continue to support a principles-based approach. We therefore support wordings like drafting paragraph 290.213 using terminology such as "large proportion of the total fees of the firm", as it implements the principles-based approach.	WpK	See above
56.	Principles approach	In general, FEE is pleased to note that the approach taken in respect of the items addressed in the ED remains the principles-based approach or the threats and safeguards approach. FEE is committed to the principles-based approach as being the most robust because, inter alia, by focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach. This has been recognised in Europe in the European Commission Recommendation on Independence[2], which follows this approach, and the recently, in the Statutory Audit Directive[3], which specifically endorses the approach in Article 22. We accept, however, that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. We, nevertheless, continue to be concerned about the increasing tendency of the IFAC Code of Ethics to become rules rather than principles-based. We believe that for instance the introduction of a particular fixed percentage into the relative size of fees discussion has moved the Code too close to a rules-based approach which can encourage a tick-box compliance with the form of the requirement rather than the spirit.	FEE	See above

[2] European Commission Recommendation on Statutory Auditor's Independence in the EU: A set of Fundamental Principles, May 2002
[3] Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts

X ref	Par Ref	Comment	Respondent	Proposed Resolution
57.		**Internal Audit**		
58.	General	We are supportive of the decision not to prohibit provision of internal audit procedures to audit clients that are entities of significant public interest.	CIMA	Supportive comment
59.	General	We support the changes to the provisions on internal audit services and agree with the Board's conclusion that performing a significant part of the client's internal audit activities increases the self-review threat and risk of assuming management responsibilities. We also are of the view that a more restrictive requirement for audit clients that are entities of significant public interest is not necessary. Sufficient conditions and safeguards are required to be implemented to mitigate any threats to independence.	DTT	Supportive comment
60.	General	FEE agrees that an audit firm should not provide internal audit services to an audit client, if the services involve the firm in performing management functions. There are no safeguards to reduce the threats to an acceptable level in such situations. We also agree that the requirements should be similar for all audit clients, and not be dependent on whether the audit client is an entity of significant public interest or not.	FEE	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
61.	General	We are broadly supportive of the changes proposed by the IESBA. In particular, we agree with the IESBA's view that: • an audit firm should not provide internal audit services to audit clients where this involves the firm in performing management functions or reviewing its own work • audit firms assisting audit clients with the performance of a significant part of their internal audit function should only do so if audit clients allocates sufficient resources to the activity; and • it is not appropriate to have a more restrictive requirement for audit clients that are entities of significant public interest; the requirements should be the same for all audit clients.	ACCA	Supportive comment
62.	General	No problems are perceived regarding the rules for internal audit services. These rules appear to parallel independence issues already present in our system.	CPAA	Supportive comment
63.	General	Concerning the independence of the statutory auditor of financial statements, the French accountancy profession is in general agreement with the development and content of that section. However some clarifications including illustrative examples are needed.	CNCC OEC	Supportive comment
64.	General	APESB is supportive of IESBA's proposals in respect of Internal Audit services and Fees – Relative size stated in the exposure draft.	APESB	Supportive comment
65.	General	While we support the overall strengthening of provisions applicable to Internal Audit services, we believe that the Code of Ethics should be more robust in some areas. We also would like to see some clarifications in certain other areas.	E&Y	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
66.	General	We agree with the proposals in respect of Internal Audit, provided that the firm's personnel do not participate in management decisions. In South Africa, the range of services that the auditors of public interest entities can provide is determined by an audit committee, thus adding an additional safeguard in respect of services which may create a threat to independence.	IRBA	Supportive comment
67.	General	We agree that when assisting an audit client in the performance of a significant part of the client's internal audit function, the audit firm should ensure that it does not perform management functions, as no safeguards could reduce the threats to an acceptable level if the firm does perform management functions.	HKICPA	Supportive comment
68.	General	We welcome and endorse the retention of a fundamentally threats and safeguards approach to the provision of internal audit services. We do, however, have some comments on the detail of the proposed rewording of this part of section 290.	ICAEW	Supportive comment – comment on detail of wording addressed below
69.	General	In our view, the proposed revisions to section 290 on internal audit services are appropriate because they make it clearer that firms may provide support to an entity's internal audit (or similar) function as long as the firm does not perform management functions or review its own work in the course of a subsequent audit. We would observe that the guidance on internal audit services should be subject to, and consistent with, the overriding guidance in paragraph 290.160.	AGNZ	Supportive comment
70.	General	We agree that an audit firm should not provide internal audit services to an audit client, if the services involve the firm in performing management functions. There are no safeguards to reduce the threats to an acceptable level in such situations.	DnR	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
71.	General	We support the principles-based approach and endorse its application to the provision of internal audit services. However, we do have specific comments on the proposed rewording of Sections 290.186 – 290.191. We agree that an audit firm should not provide internal audit services to an audit client, where those services involve the firm in performing management functions.	CARB	Supportive comment
72.	General	The ICJCE is of the opinion that an auditor or audit firm should not provide internal audit services if these services involves management decisions independently if the client is a PIE or not. In this sense our proposal to update the Spanish audit law deals with this situation in the following way: *The auditor or audit firm should not provide internal audit services to the audit client except for the case in which the audited company is responsible for the global internal control system, for fixing the scope, risk and frequency of the internal audit procedures, and for the assessment of the results and recommendations issued by the internal audit.*	ICJCE	Supportive comment
73.	General	The Australian accounting bodies are generally supportive of the proposals contained in paragraphs 290.186 - 290.191 of the ED, and agree with the IESBA views that: • Prohibiting procedures simply because they are done as part of an internal audit service is unnecessary as long as procedures do not entail the performance by the firm of management functions; • Internal audit services can be provided as long as the firm does not perform management functions and eliminates or reduces to an acceptable level any remaining threat that is not clearly insignificant; • It is not appropriate to have a more restrictive requirement for audit clients that are entities of significant public interest.	Australia	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
74.	General comment	Grant Thornton International supports the proposed guidance in paragraphs 290.186 – 290.191. We believe that the self-interest threats created by performing management functions or performing work that will be relied upon in the making of a significant audit judgment related to a matter that is material to the financial statements for an audit client are so significant that no safeguards could be applied to reduce the threats to an acceptable level.	GTI	Guidance changed to state that the firm should not assume a management responsibility and, if the firm intends to use the internal audit work, should perform procedures no less rigorous than if the work were performed directly by the internal audit function

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75.	General	We are in overall agreement with the IESBA's proposals designed to specify the conditions in which, and limits within which, the statutory auditor may provide assistance to an entity's internal audit function. First of all, we believe it is important to recall that entity management has the prime responsibility for implementing an effective system of internal control. There is no doubt a place for the statutory auditor to provide support in monitoring and improving the system of internal control, in particular by issuing recommendations as a result of his or her own internal control appraisal of the entity, but on no account must the statutory auditor be called upon to define or implement new controls since that is the exclusive responsibility of management of the entity. Secondly, the statutory auditor is required personally to perform a certain number of tests designed to obtain assurance as to the proper functioning of those key system controls liable to have a material impact on the preparation of the entity's financial statements or other financial information. In consequence, and in addition to the rules provided by § 290.101, we believe it is important to specify that the statutory auditor may not, for this purpose, rely entirely on tests performed as an internal audit service-provider even in the event of such tests being performed by a distinct professional team. The two engagements serve different purposes and there must be no confusion of roles as to the responsibility for issuing an opinion on the entity's financial statements.	Mazars	Supportive comment Additional guidance added to state that is a firm should perform procedures to assess adequacy of internal audit work if it intends to use that work

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76.	Restrict provision of internal audit service to all audit clients	The IIA recognizes that many partnering arrangements with outside providers have been effective in helping organizations obtain internal auditing services that contribute to management's strategic objectives. However, because of the potential risks to the client and the threat to independence, it is The IIAs position that a firm that provides financial audit services should not also provide internal audit services to the same client. The IIA believes that oversight and responsibility for the internal audit activity cannot be outsourced. An in-house liaison, preferably an executive or senior management-level employee, should be assigned responsibility for management of the internal audit activity. Consideration of the independence of the assigned in-house liaison must be evaluated if this individual has other (non internal audit) responsibilities. The audit committee's or equivalent governing body's role is also important in the oversight process and the level of active oversight should be considered. The IIA agrees that outside firms should not provide services that include determining the scope of work, the recommendations that should be implemented, or performing procedures that form parts of the internal controls of the organization. We have the following additional comments and suggestions:	IIA	Proposals state that firm should not assume any management responsibilities

X ref	Par Ref	Comment	Respondent	Proposed Resolution
77.	General	Section 290.190 allows an outside firm to provide internal audit services to an audit client under certain enumerated conditions. All these conditions depend upon steps that are to be taken by the client that would minimize any threat to the independence of the firm. It is incumbent on the firm to make sure it has internal safeguards in place, and not depend solely on steps taken by clients. Independence is the distinguishing characteristic of the accounting profession, and is the basis for licensing and regulating the profession. It should be zealously guarded, with even a threat of a perceived lack of independence avoided. An independent accountant should not be allowed to provide internal audit services to an audit client regardless of the nature of these services. The internal audit function is part of the management of an entity. It provides the infrastructure for management's oversight and gives management confidence that its objectives, policies and safeguards are being adhered to by the total organization. To carve out and allow minor exceptions (though such exceptions are uncommon) will create confusion and misperception that internal audit services to an audit client by the independent accountant generally are allowable. Under the Sarbanes-Oxley Act of 2002 (SOX), in the United States, an independent accountant is prohibited from offering internal audit services to an audit client; consequently, to the extent the exposure draft is adopted as proposed, it could apply only to non-public companies. SOX has measurably changed auditing and professional ethical standards, as well as the practice environment of independent accountants in the United States. In a recent survey by the Center for Audit Quality, 79 percent of the investors surveyed in the US expressed the belief that SOX bolstered their confidence in information provided by public companies. Cont'd	NASBA	Guidance changed to state that the firm should not assume a management responsibility and, if the firm intends to use the internal audit work, should perform procedures no less rigorous than if the work were performed directly by the internal audit function

X ref	Par Ref	Comment	Respondent	Proposed Resolution
78.	General	For non-public audits, reviews and other assurance engagement scenarios, it would be difficult to apply proposed Section 290.190. In addition, the exposure draft, if adopted, would divide the profession, create confusion and even render audits invalid for enterprises that plan to go public in the future. By definition, the objective of a system of internal control is to enhance the reliability of financial information, the effectiveness of operations and compliance with laws, regulations and management policies. The system of internal control is maintained and enforced by management and reviewed and monitored by the internal auditors. The independent auditor generally relies on the system of internal control, as well the internal audit function, in evaluating risks of failure. This evaluation leads to the auditor's expressing an opinion on the overall fairness of the financial statements of the enterprise. Since the auditor relies on internal audit work, the audit firm should not be allowed to perform such services, not only to avoid relying on its own work, but also to avoid any perception of lack of independence. Finally, neither segregating the service teams nor a cold review would cure the perception created by the firm's both expressing an opinion on the fairness of the financial statement and performing internal audit services for the same client. In addition, the application of safeguards may not be effective in a small firm or sole practitioner environment.	NASBA	See comment above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
79.	Restrict provision of internal audit service to public interest entity audit clients	Finally, we support the will to restrict the extent of the services that can be provided to PIEs since we believe that for this type of entity, outsourcing all of part of the entity's internal audit requirements in the areas of accounting internal control, financial reporting systems or financial statement preparation involves too great a risk of self-review.	Mazars	Guidance changed to state that the firm should not assume a management responsibility and, if the firm intends to use the internal audit work, should perform procedures no less rigorous than if the work were performed directly by the internal audit function
80.	Restrict provision of internal audit service to public interest entity audit clients	We also agree that the requirements should be similar to all audit clients, and not be dependent on whether the audit client is an entity of significant public interest. There will be other elements to take into consideration if the audit client is an entity of significant public interest, because the stakeholders are much more dependent on the credibility of the audit firm's audit opinion. When evaluating its own independence, before accepting the engagement to provide internal audit services, the audit firm is presumed to be aware of this fact and take it into account.	DnR	See comment above
81.	Restrict provision of internal audit service to public interest entity audit clients	We would also note that the provision of internal audit services, as defined, by the auditor of a reporting issuer (an entity of significant public interest) is prohibited in Canada. We believe, based on public comment in Canada and elsewhere, that a reasonable observer would view the provision of internal audit services as creating a threat to the auditor's independence for which there would never be adequate safeguards.	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
82.	General	We do not believe that the proposed changes to the provision of internal audit services to audit clients by audit firms are sufficiently restrictive	ICAS	See above
83.	General	We agree with the recognition by IESBA that there are situations where the provision of internal audit services to an audit client creates a self-review threat. However, we believe that where the auditor is likely to place significant reliance on the internal audit work performed by the audit firm, the self-review threat would be unacceptably high and such services should be prohibited, rather than allowing safeguards to be applied.	APB	Guidance change to state that if the firm intends to use the internal audit work, should perform procedures no less rigorous than if the work were performed directly by the internal audit function
84.	General	We welcome the Board's effort to clarify ethics and independence issues relating to internal audit services. "Internal audit" is a term that can cover a broad range of services and therefore may have different meanings in different settings. Some internal audit services may address non-financial, operational processes and policies of an organization, while others may address or be part of management's system of internal controls over financial reporting. In these latter cases the external auditor will be evaluating the internal audit functions and making decisions on how much use may be made of – and reliance placed upon - the work of a company's internal auditor. Consequently, there can be a lot of interaction between internal and external audit in some public listed companies. Cont'd	IOSCO	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
85.	General	We believe that the interaction between internal and external audit in matters relating to financial reporting raises the issue of an "auditor auditing his own work" because an external auditor whose audit firm is performing outsourced internal audit work for an audit client will be considering work supporting financial reporting that is performed by others in his or her audit firm. As such, we believe the provision of internal audit services relating to the system of controls over financial reporting involves inherent potential conflicts. As a result of such potential conflicts, some IOSCO members prohibit a company's auditor from performing any internal audit services. Others allow a percentage of internal audit work to be done by an external auditor under specified conditions as a separate service, or allow internal audit work to be done for areas that will not be subject to audit. Still others have different requirements or focus on evaluating the facts and circumstances of each case individually. We recognize that it is not ideal for multinational company issuers and their auditors to be subject to differences in requirements, and that users of financial statements involving multinational companies could find such differences difficult to understand. We believe the IESBA could provide useful clarification in its professional standards that would help to promote both improved understanding and progress toward convergence. However, we are not comfortable with the coverage of internal audit in the current ED as a model to use to work for greater convergence in independence standards.	IOSCO	Guidance changed to state that if the firm intends to use the internal audit work without appropriately evaluating the results a self review threat would be created – accordingly the firm, should perform procedures no less rigorous than if the work were performed directly by the internal audit function

X ref	Par Ref	Comment	Respondent	Proposed Resolution
86.	General	We also encourage the Board to deliberate and put forth a more extensive and clear rationale for why performance of some internal audit services by the company's auditor is in the interest of investors. We also urge the Board to explain more clearly how any potential for conflicts of interest or other negative influences on independence could be fully addressed and managed. If the Board is able to address both potential conflicts and potential safeguards in a comprehensive and high quality standard, it is possible that a foundation might be laid for some progress toward global convergence. If such expanded coverage of issues relating to internal audit services and justifications for using a company's external auditor for certain outsourced internal audit services with appropriate safeguards can not be developed in the current project, we do not see it in the public interest for the Code to appear to contemplate or encourage provision of internal audit services by a company's auditor. Cont'd	IOSCO	See above
87.	General	Most of our members think that a self-review threat is *definitely* created from the provision of internal audit services by a company's auditor when such services have an element of doing work related to a company's financial reporting and/or internal controls that support that financial reporting. In this case, it is likely that an auditor will be reviewing work provided by others in his firm that is part of the system of controls over financial reporting. There could be undue reliance on the internal audit function simply because it is being provided by another work group in the same audit firm. We also believe a threat of a potential conflict of interest, or at least an increased risk of same, would be created in the case where an external audit team discovers that another team in that audit firm performing internal audit services has missed an important weakness in the company under audit. Cont'd	IOSCO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
88.	General	We agree with the Board's analysis that involvement in management functions of an audit client creates a threat that no safeguard can reduce to an acceptable level. However, where the Board's analysis states that the provision of internal audit services only "*possibly"* creates a self-review threat, we are concerned that this general statement is too weak and could create confusion. If the IESBA believes that a threat to independence can be fully overcome even in the case of internal audit work relating to financial reporting, we would be interested to understand the Board's view of how this could be done. We wish to underscore that we are not necessarily advocating a full prohibition on provision of internal audit services by a company's external auditor – but rather pointing out that this subject is insufficiently addressed in the current ED. ***Summary Comment regarding internal audit*** In our view, the coverage of the subject of internal audit services and the examples of safeguards provided in 290.191 are not sufficiently robust. Therefore, we encourage the Board to deliberate further on the range of internal audit services and on how an external auditor's provision of internal audit services serves the public interest, and to expand coverage of this subject in the Code, as well as analyze and deliberate on which safeguards should be necessary or appropriate. We also think that a statement is needed in the Code that not all self-review threats can be mitigated with safeguards and that a company's external auditor may need to decline to perform certain non-audit services.	IOSCO	See above
89.	Management functions	We note that the agenda papers for the October 2007 IESBA meeting include revisions to the ED issued in December 2006 (Agenda paper 5-F). In particular, the references to "management functions" in that ED have been changed. We support that change and believe that conforming changes should be made to the proposed provisions on internal audit services.	DTT	Change proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
90.	Heading	The Committee believes that the IESBA should consider clarifying certain aspects of paragraphs 290.186-191. These aspects include the following. To make the proper responsibilities of the firm and the audit client clearer, the title that precedes paragraph 290.186 should include the word "participation" to become "Participation in Internal Audit Services".	Basel	Minority comment – no change
91.	Heading	NIVRA suggests to change the title 'Internal Audit Services' into 'Internal Audit and Internal Control Services'. The title 'Internal Audit Services' suggests that the scope of the provisions is limited to internal audit services. Based on the texts and especially the examples it can be concluded that 'specialized internal control assignments' fall within the scope as well. To prevent misunderstanding NIVRA suggests to rephrase the title and state 'Internal Audit and Internal Control Services' instead. If this proposal is accepted the titles of the corresponding paragraphs in this chapter should be changed as well. If this proposal is not accepted the texts of the paragraphs in this chapter should be changed by removing the provisions that are not part of the 'internal audit services' but of 'internal control services'	NIVRA	Minority comment – no change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
92.	186-187	In connection with the above mentioned ED I have a comment on the risk of the firm reviewing its on work in the course of a subsequent audit. My comment relates to paragraphs 290.186 and 290.187. My comment or rather request is if you could discuss more extensively when this risk of self review is present. The risk of the firm performing management functions is present in all 4 activities mentioned in 290.186. In my opinion the risk of self review is not present in the activities mentioned under c. However, it is clearly present in the activities mentioned under b. Subject to discussion are the activities under a and d. The activities under a and d include procedures that are similar to those performed during an audit conducted in accordance with International Standards on Auditing. In its Explanatory Memorandum the IESBA has considered that prohibiting procedures simply because they are done as part of an internal audit service is unnecessary as long as the procedures do not entail the performance by the firm of management functions. Am I correct to conclude that the activities mentioned under a and d in paragraph 290.186 are not considered a threat to independence as long as they do not involve the performance of management functions? Or must other conditions also be met?	PV	Guidance changed to state that if the firm intends to use the internal audit work without appropriately evaluating the results a self review threat would be created – accordingly the firm, should perform procedures no less rigorous than if the work were performed directly by the internal audit function
93.	186	As internal audit services can comprise a very wide range of activities - more than are specified in the Exposure Drafts paragraph 290.186 - we suggest that the Board should provide a more comprehensive discussion of activities that typically take place under the label of "internal audit services" and distinguish between those services which relate to financial reporting and the system of controls over financial reporting, and other internal audit services.	IOSCO	Guidance changed to include description of internal audit activities that is consistent with that contained in ISA 620 The Auditor's Consideration of the Internal Audit Function

X ref	Par Ref	Comment	Respondent	Proposed Resolution
94.	186	It would be helpful if the section would start with a definition of internal audit before elaborating on the wide range of activities that internal audit functions comprise. A useful and widely used definition of internal audit is the definition provided by the Institute of Internal Auditors. This definition is as follows: *"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process."* *(see http://www.theiia.org/guidance/standards-and-practices/professional-practices-framework/ definition-of-internal-auditing/).* The section should make it clearer in an introductory paragraph that providing internal audit services to an audit client creates three threats to independence: performing management functions for the audit client; becoming part of the client's internal controls; and reviewing its own work in the course of a subsequent audit. Each threat identified in the introductory paragraph could then be cross-referenced to the paragraphs where the threat is explained in more detail and where possible safeguards are provided.	Basel	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
95.	186	We are concerned that the ED does not appropriately define "internal audit" and potentially confuses activities that can be performed as part of the external audit, without any threats to independence. Various definitions of internal audit exist. Generally, they have the following attributes in common: • An independent appraisal function within an organisation • Established by management • Provides a service to management by measuring and evaluating the effectiveness of the internal control system Internal and external audits differ principally in terms of applicable independence requirements, accountability, responsibility and scope. A key difference is that the external auditors are accountable to shareholders, whereas internal audit is accountable to the organisation it serves, and internal audit work is carried out on behalf of the management and governance board of the entity. We recommend that these differentiating factors should be built into the initial description of internal audit services.	PwC	See above
96.	186	Section 290.186 of the previous version stated that '...internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.' implying that the provision of the latter would not pose a threat to independence. The proposed revised Section 290.186 states that internal audit functions comprise a wide range of activities, for example '(c) conducting operational internal audit activities unrelated to internal controls over financial reporting'. The Committee is of the view that further clarification is required of what comprises functions as opposed to services.	ICPAC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
97.	186	There will be many views on what 'internal audit' encompasses. 290.186 rightly notes the items indicated as examples, but it is even debatable whether all of those items would be considered to be internal audit. The Institute of Internal Auditors, for instance, would not regard performing internal controls (290.186b) as being within the scope of internal audit, and while performing fraud investigations (290.186d) may well be undertaken by internal auditors, it does not mean that it would be considered to be internal audit. We suggest that 290.186 be rewritten at least to indicate that the listed items *might* be considered to be internal audit functions.	ICAEW	See above
98.	186	Replace "for example" with "include" before (a)	RM	See above
99.	186	We refer to the listing of examples of internal audit functions in paragraphs (a) – (d). There are differing opinions as to which activities come within this term and in particular whether "fraud investigations" would always be construed as an internal audit function. It is unclear the nature of the services to be considered under this heading. It is suggested that Section 290.186 be amended to provide examples of activities which might in certain circumstances be deemed internal audit functions.	CARB	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
100.	186	The examples of internal audit functions may lead to confusion We recommend that the examples in paragraph 290.186 be revised to better convey the activities of an internal audit function. For example, we believe the internal audit function primarily entails monitoring internal controls rather than performing procedures that form part of the internal controls of an entity. The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control - Integrated Framework states that "Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role. (emphasis added)" Accordingly, we recommend that the example in 290.186(b) be revised to recognize the important monitoring role the internal audit function plays in an organization, specifically by replacing that example with "monitoring internal controls over financial reporting."	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
101.	186	We also believe it would be beneficial if the examples of internal audit functions were more closely aligned with the internal audit function activities described in the explanatory material of the proposed redraft of ISA 610, paragraph 2, the "Scope and Objectives of the Internal Audit Function." Specifically, the ISA states: A1. An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity's management and those charged with governance. A2. The scope and objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit function activities may include one or more of the following: • Monitoring of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto. • Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures. • Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity. • Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements. Some internal audit activities may involve procedures that are performed as part, or an extension, of a financial statement audit or other assurance engagement. For those cases, we recommend the guidance clarify that such procedures would not be considered internal audit activities and thus would not be subject to the proposed safeguards.	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
102.	186	Finally, we recommend deleting "fraud investigations" as an example of an internal audit function. While internal auditors may be called upon to perform fraud investigations, including this as an example of an internal audit function would suggest that anytime an audit firm is asked to perform such an investigation (even if the investigation results in the issuance of an assurance report) the firm would be subject to the internal audit services provisions of the Code. This would seem counterintuitive, particularly where the jurisdiction in question has guidance that addresses fraud investigation services. For example, in the U.S., the AICPA Code of Professional Conduct provides independence guidance when performing fraud investigations. Separate guidance is also provided in the U.S. for rendering internal audit services. To the extent other jurisdictions have rules dealing with fraud investigations, including that service as an example of an internal audit function will confuse member bodies.	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
103.	186	We recommend paragraph 290.186 be revised as follows to incorporate the above comments (additions appear in boldface italic and deletions are stricken): 290.186 Internal audit functions comprise a wide range of activities. The scope and objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit function activities may include one or more of the following, for example: (a) Monitoring of internal control; (b) Examination of financial and operating information; (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and (d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements. (a) reviewing and testing of internal controls over financial reporting; (b) performing procedures that form part of the internal controls; (c) conducting operational internal audit activities unrelated to internal controls over financial reporting; and (d) performing fraud investigations. With the exception of (a), which if performed by the audit firm would constitute the performance of a management function, performing these procedures as part, or an extension, of a financial statement audit or other assurance engagement would not be considered the performance of internal audit function activities.	AICPA	See above
104.	186(b)	Further, we recommend that the text clarify how internal audit activities interact with internal control activities. For example, we believe internal audit activities primarily entail “monitoring” of internal controls rather than "performing procedures that form part of the internal controls" (paragraph 290.186(b)).	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
105.	186(b)	186 (b) Suggest replacing "performing procedures that form part of the internal controls" with "reviewing and testing internal controls over financial reporting" to emphasize the internal audit functions key role to provide assurance to management that controls are adequately designed and operating as management intends	IIA	See above
106.	186	We believe that the definition of internal audit services in proposed paragraph 290.186 should not include subparagraph (c), operational internal audit activities unrelated to internal accounting controls over financial reporting, unless such activities constitute a management responsibility as described in the Code. We would observe that such operational audit activities should not ordinarily create a self-review threat, and they would be subject to the general threats and safeguards analysis.	CICA	Guidance changed to include description of internal audit activities and also t note that a self-review threat would be created unless appropriate procedures are performed if the auditor intends to use the work.
107.	186	Paragraph 290.186 describes certain activities that might be undertaken as part of an internal audit function. We recommend it should be specifically recognised that an independent auditor: • Normally reviews and tests internal controls within the context of the external audit and, as a result, may make recommendations for improvements to the controls (including the functions of the internal audit department), and • Performs fraud auditing procedures to obtain reasonable assurance that a material misstatement due to fraud does not exist and may expand those procedures when fraud is suspected. For those situations, the guidance in this section is not relevant, given that the performance of such services as part of the accountant's responsibilities under GAAS or applicable assurance standards do not impair independence. Accordingly the Code should retain the clarification that exists in paragraph 290.182 of the existing Code that such services when performed as part of or an extension of the external audit would not impair independence. In this way, we believe the text will better clarify the borderline between internal audit and internal control.	PwC	Minority comment – no change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
108.	186	Paragraph 290.186 includes Fraud Investigations within the scope of Internal Audit functions. Such activities are not necessarily conducted in relation to internal audit activities and we believe that the mandatory safeguards listed in Paragraph 290.190 may not necessarily be appropriate or practical for Fraud Investigations. For example, if the client's audit committee requests Fraud Investigation services, it may not be possible to have a member of senior management or an employee of the audit client have responsibility for the adequacy of the procedures. Accordingly, the mandatory safeguards should be clarified when applying to Fraud Investigations.	E&Y	Example deleted and replaced with a description of internal audit activities that is consistent with ISA 620
109.	186	Paragraph 290.186 includes fraud investigations. Such activities are not necessarily conducted as part of an internal audit assignment and FAR SRS believes that the safeguards listed in Paragraph 290.190 may not necessarily be appropriate for fraud investigations. For example, if the client's audit committee requests fraud investigation activities it may not be possible to have a member of the senior management or an employee of the client to be responsible for the procedures. FAR SRS is of the opinion that the mandatory safeguards should be clarified when applying to fraud investigations.	FAR	See above
110.	187	The third last sentence "…*firms part of internal controls*…" should read "…forms part of the internal controls…". We concur with the view that a conflict would arise and concur with paragraph 290.187. As the internal controls set up by an organization depend on management's appetite for risk as well as tolerance levels, the impact of being involved with management and exposed to management's risk appetite in the process of making control decisions will impact on the firm's ability to judge the controls impartially and should be avoided.	SAICA	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
111.	187	To clarify the link between internal audit services (i.e., services performed by the firm) and internal audit function activities, we recommend that the following sentence that appears in boldface italics be added to the beginning of paragraph 290.187: *Internal audit services involve assisting the audit client in the performance of its internal audit function activities.* Depending on the nature of the service, the provision of internal audit services to an audit client may create a threat to independence if such services involve the firm performing management functions or reviewing its own work in the course of a subsequent audit.	AICPA	Change made
112.	187	290.187 discusses the potential to create a threat to independence. In our view the extent to which a threat arises from reviewing own work in this area will vary depending on the extent to which the firm has given an opinion on the work performed. It may be helpful to clarify this. While we accept that the condition requiring the client to evaluate the adequacy of the internal audit procedures (290.190e) is copied from the existing requirements, we question whether, as written, this implies a need to evaluate audit procedures in a technical manner that is unlikely to be practicable for the client. The issue here is, and should be set out as being, that the audit firm is not expressing an opinion on whether the procedures carried out mean that the controls are or are not effective.	ICAEW	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
113.	188	We would like to note that paragraph 290.188 states that the firm's personnel will become part of the client's internal controls. However, it is not the individuals themselves, but the service provided by the firm's personnel that may become part of the client's internal controls. In more general terms, a clear distinction exists between internal audit and internal control within an audit client or entity and this should be made clear in the Code. Internal Control is the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The internal audit function within an entity may be assigned specific responsibility for reviewing controls and any aspects of one or more of the components of internal control, monitoring their operation and recommending improvements thereto. The scope of the internal audit function's responsibilities in relation to the entity's internal control may, therefore, vary considerably from one entity to another.	FEE	Change made
114.	188	Regarding internal audit services, Paragraph 290.188 states that firm personnel will become part of the client's internal controls. However, it has to be noted that it is not the individuals themselves, but the service provided by firm personnel that may become part of the client's internal controls. We therefore recommend a clarification.	WpK	Change made
115.	188	However, we believe paragraph 290.188 is confusing and should be clarified. We believe a distinction should be drawn between internal audit and internal control within the audit client because it is the service provided by the firm's personnel which may become part of the audit client's internal controls, not the individuals themselves.	ACCA	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
116.	188	Paragraph 290.188 is somewhat confusing in that it states that firm personnel will become part of the client's internal controls. We suggest this be rephrased such that it is clear that it is the service provided by firm personnel that may become part of the client's internal controls rather than the individuals themselves.	IDW	Change made
117.	188	At paragraph 290.188, third line, a full stop is missing and the sentence should therefore read " … will take management decisions. Accordingly, …".	SAICA	Change made
118.	188	Paragraph 290.188 refers to the "performance of a significant part of the client's internal audit function". We believe that an additional consideration is the regularity of the firm's involvement in such activities. Performing a significant part of the client's internal audit function on a regular and continuous basis may increase the risk that the firm may take on a management responsibility. On the other hand, the conduct of discrete services are unlikely to create a threat to independence. We recommend that the Code acknowledges those situations.	PwC	Minority comment – no change
119.	188	Paragraph 290.188 requires that the firm should be satisfied that the client has designated appropriate resources to internal audit activities before accepting an engagement to perform a significant part of the internal audit function. This requirement is intended to limit the risk of the firm's personnel becoming part of the client's internal controls or making management decisions. We agree that this risk should be avoided; therefore such requirement should be applicable for all internal audit engagements and not simply where the engagement is a significant part of the internal audit function.	E&Y	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
120.	189	We note, however, that we do not believe that it will always be inappropriate to perform "activities that are the responsibility of management" given how the term "audit client" is currently defined. In the Code, where the audit client is a listed entity, a reference to the audit client includes its related entities. This may include a parent entity or "sister companies". Whether it is inappropriate to perform such activities to such entities will, in our view, depend upon the particular facts and circumstances. For example, in principle, we believe the firm could perform such activities for a sister company, that is not an audit client of the firm, if there is no resulting threat to the firm's independence of the audit client. In the context of internal audit, as an example, this might involve determining the scope of internal audit work for the sister company. We do not believe this creates a threat to the independence of the firm with respect to the audit client on whose financial statements the firm is reporting. We believe that this can also apply to the provision of other non assurance services to such related entities, as discussed in Section 290, and we recommend that the Board give consideration thereto in the context of the 2006 ED.	PwC	Minority comment – no change
121.	189	Include performing outsourced accounting services as (c)	RM	Minority comment – no change
122.	189	For example, the reasons for prohibiting the auditor performing procedures that form part of the internal control should be explained by stating that designing, implementing and maintaining internal controls is the responsibility of management, which is consistent with the auditors report in ISA 700.	CNCC OEC	Change made
123.	189(a)	Paragraph 290.189 provides in (a) as an example of a management function, determining the scope of the work and which recommendations should be implemented. We suggest that the "and" be changed to "or" since either would be a management function.	DTT	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
124.	189	To reduce the likelihood that the examples presented are interpreted as those performed by internal audit, suggest removing "internal audit" from this statement to read "examples of services that entail management functions include".	IIA	Change made
125.	189	Another example of an internal audit service that involves the performance of a management function should be added Paragraph 290.189 provides two examples of internal audit services that entail the performance of management functions. We recommend the example that follows in boldface italic be added (prior to existing example (b)) to further illustrate the performance of a management type function. 290.189 If a firm performs management functions for an audit client, no safeguards could reduce the threats to an acceptable level. Accordingly, a firm should ensure that it does not perform management functions when providing internal audit services to an audit client. Examples of internal audit services that entail the performance of management functions include: (a) performing outsourced internal audit services, comprising all or a portion of the internal audit function, whereby the firm is responsible for determining the scope of the work and which recommendations should be implemented; *(b) reporting to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function.* (c) Performing procedures that form part of the internal controls, such a reviewing and approving changes to employee data access privileges We believe that this example will help clarify the condition set forth in paragraph 290.190(f) that appropriate internal personnel communicate the findings and recommendations to those charged with governance.	AICPA	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
126.	190	To meet the conditions of the proposed Para 290.190 engagements need to be appropriately structured to: • clarify the extent of the client's and firm's responsibilities; and • ensure the client sets the scope of the engagement. These objectives may be achieved by means of agreed upon procedures.	Australia	Guidance states internal audit services should only be provided if firm does not perform management functions
127.	190	We also believe that it is a good practice to establish a written contract between the client and the firm providing internal audit services. The contract should explicitly provide that senior management must give its prior approval to any risk analysis performed by the firm and to any internal audit plan that the firm has established. For an audit client that is regulated, the contract should also state that the client's senior management (or its representatives) and the regulatory or supervisory authority have access at any time to the work plan and working papers. Section 290.190 should include these principles.[4]	Basel	Minority comment – no change
128.	190	We believe that the following changes would make paragraph 290.190 clearer. We suggest adding the words "at all times" in paragraph 290.190(a): The client is *at all times* responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the internal controls'. We believe that for entities of significant public interest it is a good practice that the client always (and not "preferably") designates a competent and experienced individual within senior management to be responsible for internal audit activities. We suggest modifying paragraph 290.190(b) accordingly.	Basel	Minority comment – no change implicit in the wording

[4] The Board may find it helpful to refer to the Committee's publication "Internal audit in banks and the supervisor's relationship with auditors" (August 2001). The document is available at www.bis.org.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
129.	190	It appears that the Board is trying to identify conditions where internal audit services can appropriately be provided to audit clients, but we question whether the conditions as set out in 290.190 are sufficient and clear. We think the conditions are in need of review, especially in the following areas: *(c) The client or those charged with governance approve the scope, risk and frequency of internal audit work.* We think this condition is missing an element of the auditor's responsibility, and may also include a faulty premise, at least in a global standard. We also think that client approval or audit committee approval is not sufficient as a safeguard in itself, but rather must be used in combination with other safeguards. First, in order for the client or those charged with governance to have a basis to understand and approve the scope, risk and frequency of internal audit work, the client and/or those charged with governance must receive adequate information <u>from the auditor</u> that is proposing to perform the internal audit services. Approving parties need factual information that will enable the client to evaluate the situation and support an approval decision. We do not see any coverage in the Code regarding the necessity and obligation of the auditor to supply such information to management or those charged with governance. Cont'd	IOSCO	Guidance changed to state that those charged with governance should review, assess and approve the scope of the work – to carry this out, those charged with governance would need to have adequate information.
130.	190	Second, as presently written, the Code could be interpreted as indirectly attempting, through an auditor ethical standard, to require the audit client or those charged with governance to perform certain actions, rather than requiring the auditor to perform certain actions. Rephrasing of the requirement to state something more auditor-focused would improve the Code's clarity – for example, "An auditor shall not perform internal audit services unless the auditor is confident and can demonstrate with sufficient support that the client and those charged with governance retain appropriate responsibility for the management and oversight of the internal audit work and do not rely upon the auditor to perform management functions." Cont'd	IOSCO	Minority comment – no change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
131.	190	As we read the existing ED, we also wonder if it is a faulty premise for a global standard to expect that those charged with governance (as opposed to management) in large multinational companies would be able to understand and approve the scope and frequency of internal audit work. Boards of Directors and Audit Committees have an oversight and questioning role, and approving the scope, risk and frequency of internal audit work, at least in large public companies, could involve a degree of review of detailed operational planning not universally considered to be within the realm of "governance" or "audit committee oversight" functions.	IOSCO	Guidance states that client management or those charged with governance should review, assess and approve scope and frequency of the work.
132.	190	*(d) The client is responsible for evaluating and determining which recommendations of the firm to implement.* In addition to evaluating and determining which recommendations of the firm to implement, we think the client, and not the auditor, should be responsible for managing all follow-up actions taken in response to the recommendations. In keeping with our view that the Code should be focused on the observations, actions, and decisions of the *auditor*, we would again suggest exploring a change in wording as we have noted in the example in (c) above.	IOSCO	Change made
133.	190	It is suggested that at paragraph 290.190 a condition be added that those charged with governance (not the firm) are responsible for following up on the findings of internal audit and devising and ensuring suitable controls etc are implemented to address weaknesses identified.	SAICA	Change made
134.	190	In this regard, we note that paragraph 290.190 of the Exposure Draft attempts to set out a list of all the types of management functions that the client should be performing before an audit firm can provide internal audit services. While we are not questioning that the points in (a) to (f) are inappropriate, we would encourage the IESBA to draft the proposed requirements in such a way that they are more "principle based" rather than explicitly stating that a firm should only provide internal audit services to an audit client if all of conditions in (a) to (f) are met	HKICPA	Minority comment – no change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
135.	190	Furthermore it could be useful to explain that if the 6 conditions stated in paragraph 290-190 are essential for the statutory auditor to carry out internal audit services, it's because they are prerequisite conditions for the existence of a effective internal control.	CNCC OEC	Minority comment – no change
136.	190	Paragraph 290.190 requires that certain conditions be met before providing internal audit services and 290.191 requires consideration of safeguards before the firm accepts an engagement to provide internal audit services. In the interests of clarity, we suggest that consideration be given to those conditions and/or safeguards that are required to be satisfied before accepting the engagement and those that will necessarily occur once the engagement is underway, such as reporting the findings to those charge with governance. It is unclear which if any of the requirements in 290.190 should be implemented or a commitment received from the client before accepting the engagement. Moreover, with respect to 290.191, the significance of the self-review threat may be impossible to determine before accepting the engagement as the specifics relating to the scope of either the internal audit work or the audit work may not be determined. It seems as important to assess the self-review threat when staffing the audit engagement and applying safeguards at that point if it is determined there is a self-review threat based on the staffing and/or scope of the internal audit engagement.	DTT	Guidance states that firm should only provide internal audit services if all the conditions are met – therefore the conditions would need to be met before and during the performance of the internal audit services.
137.	190(e)	We agree with the condition required in paragraph 290.190(e) that the client evaluate the adequacy of the procedures and the findings; however, we do not believe it should be a requirement that the firm be satisfied that the client actually acts on the firm's reports. The client's decisions regarding the findings and which recommendations should be acted upon have no bearing on the firm's independence.	DTT	Guidance states that management is responsible for the implementation

X ref	Par Ref	Comment	Respondent	Proposed Resolution
138.	190(f)	Paragraph 290.190 requires mandatory safeguards applicable to all internal audit engagements. We support these mandatory safeguards but recommend clarifying safeguard f). In particular safeguard f) states that "the findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance". This safeguard should state clearly that the client's management is responsible for reporting on internal audit activities, and this is not the firm's responsibility.	E&Y	Change made
139.	190(f)	We recommend that the requirement in paragraph 290.190(f) be changed to require "significant" findings and recommendations to be reported to those charged with governance. It would potentially put an enormous burden on those charged with governance if every finding had to be reported, regardless how insignificant. Moreover, it is not clear what is meant by reported "appropriately". Does this mean in accordance with the directions from those charged with governance or merely that it is appropriate to report the findings to those charged with governance. We suggest this be clarified.	DTT	Change made
140.	190 (g)	At paragraph 290.190, a further list item is recommended: (g) The Internal Audit procedures to be performed are done independently of the main assurance function team members and management as the internal auditors will tend to view their own recommendations more favourably and bias may set in.	SAICA	Change made to state that individuals performing internal audit services should not be given external audit responsibility for any function or activity with which they were involved as part of the internal audit activities.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
141.	191	Paragraph 290.191 includes a safeguard under the second bullet, which reads: 'Having an additional professional accountant review the work or otherwise advise as necessary'. Similar safeguards are included in: -290.146: 'Having an additional professional accountant who was not a member of the audit team review the work of the senior personnel'; and -291.137: 'Having an additional professional accountant who was not a member of the assurance team review the work of the senior personnel. -291.214: 'Such safeguards might include having an additional professional accountant review the work or otherwise advise as necessary. NIVRA remarks the following in that respect: -According to NIVRA, this review should be conducted by a 'professional accountant in public practice', because all cases relate to safeguards for threats to control issues. -To NIVRA the meaning of the word 'additional' remains unclear. The word 'additional' creates the impression that an assignment is additionally reviewed on top of the 'engagement quality control review'. That is under the assumption that the engagement will be subject to the 'engagement quality control review' from ISQC-1 paragraph 60 and further, because of the threats consisting in the intended situations. That would lead to a review of a review, which approach does not seem useful.	NIVRA	Paragraph deleted

X ref	Par Ref	Comment	Respondent	Proposed Resolution
142.	191	At paragraph 290.191, it is suggested that separate team members should be used at all times, i.e. at no time should those who perform the audit be involved in providing internal audit services to the client.	SAICA	Change made to state that individuals performing internal audit services should not be given external audit responsibility for any function or activity with which they were involved as part of the internal audit activities.
143.	191	Furthermore, we note that in paragraph 290.191 that follows from the above proposals are suggestions of safeguards which firms should undertake when considering accepting an engagement to provide internal audit services to an audit client. It is not clear whether these safeguards are in addition to the conditions listed in paragraph 290.190. It would appear that if an engagement meets the conditions listed in paragraph 290.190 as drafted, it would not threaten independence. We would recommend that IESBA reconsiders the drafting of these two paragraphs	HKICPA	Paragraphs redrafted
144.	191	Using professionals who are not members of the audit team to perform internal audit services in a 'not clearly insignificant' area is not sufficient to ensure objectivity of the original work or objectivity if the 'self review threat' becomes real. Suggest removing this safeguard and revising the second safeguard to require and independent professional accountant that is not a member of a network firm	IIA	Paragraph deleted
145.	191	We therefore recommend that consideration is given to including a safeguard which, in certain countries, require the relevant governance structures to determine the range of services which can be provided by the auditors.	IRBA	Minority comment
146.	191	290.191 refers to other possible safeguards including review by another professional accountant. This is a powerful safeguard if the professional accountant is appropriately qualified and experienced: something that should be clarified.	ICAEW	Paragraph deleted

X ref	Par Ref	Comment	Respondent	Proposed Resolution
147.	191	Paragraph 290.191 appears to be the most substantive change of emphasis from the existing Code, as there appears to be increased emphasis on the potential for self review threats. We are not wholly persuaded by the inference that doing more audit work in relation to internal controls results in an increased self review threat to the firm's independence, particularly as the external auditor is obliged to take into account all evidence and information available to it. However, the recommended distinction above between acting for and reporting findings to "executive management" as opposed to shareholders (and the avoidance of "management responsibilities") would help the rationale.	PwC	Change made – paragraph added to explain the nature of the threat
148.	191	last sentence for 'work' 'internal audit work' be substituted.	RM	Sentence deleted
149.	191	Paragraph 290.191 provides that "before accepting an engagement to perform a significant part of an audit client's internal audit function, the firm should be satisfied that the client has designated appropriate resources to the activity to take responsibility for the matters detailed in paragraph 290.190." Regardless whether the firm performs a significant part or insignificant part of the internal audit function, the firm should be satisfied that those requirements are met. Thus, although there is the implication that there are additional requirements if the scope of the internal audit services is significant, in fact, the requirements are the same regardless of the scope. This may lead to confusion.	DTT	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
150.	191	As explained in the Introduction of this Appendix, the Committee believes that firms should not provide internal audit services to entities of significant public interest in combination with performing the external audit of the same client's financial statements in cases where the internal audit work would be relied upon in the course of auditing the client's financial statements or where the firm personnel providing the internal audit service would undertake part of the role of management. In these circumstances, when the audit client is an entity of significant public interest, the self-review threat or management threat, respectively, would be so high that no safeguards could be implemented to mitigate the threat. Paragraph 290.191 should be modified accordingly. For example, this paragraph could be made applicable only to audit clients that are not entities of significant public interest.	Basel	Change made to describe the nature of the threat and procedures to be performed to address the threat
151.	191	Paragraph 290.191 suggests the implementation of safeguards in situations involving self-review threats. We believe that when the work undertaken is relied upon in the making of a significant audit judgment related to a matter material to the financial statements, the self-review threat is significant. As a result, we recommend that the IESBA adopts provisions consistent with other areas in the Code dealing with a similar threat (Preparing Accounting Reports and Financial Statements, Valuation Services, Taxation Services). In particular, for entities of significant public interest, we believe that the firm should not undertake internal audit work that is relied upon in the making of a significant audit judgment related to a matter material to the financial statements. However, the firm should be able to undertake procedures which are generally considered within the scope of the audit engagement even if the testing would exceed that required by auditing standards which would not be deemed an internal audit function. For example, the firm should be able to conduct "agreed-upon procedures" engagements related to the company's internal controls.	E&Y	Change made to describe the nature of the threat and procedures to be performed to address the threat

X ref	Par Ref	Comment	Respondent	Proposed Resolution
152.	191	In relation to the safeguards mentioned of using professionals who are not members of the audit team to perform the internal audit services and having an additional professional accountant to review the work or otherwise advise as necessary, we are of the view that small firms will be put in a disadvantaged position as compared to the larger accounting firms. Sole practitioners and small accounting firms may not be able to implement the safeguards mentioned in paragraph 290.191 and accordingly, we request IESBA provides more guidance on safeguards that may be applicable for sole practitioners and the small accounting firms e.g. maybe providing some guidance for sole practitioners and the small accounting firms such that they should not rely on the work of internal auditing in performing their audit.	HKICPA	Sentence deleted
153.	191	Paragraph 290.191 provides as a possible safeguard "having an additional professional accountant review the work." It is unclear whether it is intended that the internal audit work be reviewed or the audit work.	DTT	Sentence deleted
154.		**Fees General**		
155.	General	No issues are perceived regarding rules for fees. These rules appear to parallel independence issues already present in our system.	CPAA	Supportive comment
156.	General	We support the proposals in respect of fees.	IRBA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
157.	214	We welcome the Board's effort to clarify steps to be taken by audit firms, in response to the situation where there is economic dependence upon specific audit clients. However, we note that the Board has chosen to focus its coverage on one single form of economic dependence, the situation which arises most commonly in smaller audit firms at the total firm revenues level. As the issue of economic dependency can arise even in the largest audit firms in regard to the significance of the fees of a particular audit client to a partner or to an operating unit of the firm, we would like to see the broad subject of economic dependence addressed in a robust, comprehensive, principles-based manner in the Code. An economic dependence and self-interest threat is created whenever an individual's compensation or a firm operating unit's revenues are significantly affected by the fees paid by a particular audit client. An economic dependence and self-interest threat is also created when an audit partner's remuneration is significantly affected by such factors as the provision of non-audit services to audit clients or by maintaining and retaining audit clients. We strongly encourage the Board to deliberate the issue of economic dependence further and identify how to address this issue in a comprehensive and principles-based manner in the Code, rather than focus only on one narrow type of economic dependence that occurs at a firm level. The brief coverage of additional kinds of economic dependence noted in paragraph 290.214 should at least be expanded to discuss additional kinds of safeguards which may be helpful, for example, development of a process for special reporting to, and monitoring by, those charged with governance when operating unit or partner-level economic dependence exists.	IOSCO	No change - Paragraph 290.214 refers to the self-interest threat that may be created when fees generated from an audit client represent a large proportion of the revenue of an individual partner's clients.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
158.	General	In the draft of December 2006 paragraph 290.2 states that in section 290 the term 'firm' includes 'network firm', except where otherwise stated. NIVRA considers this use of terminology confusing, especially because in the current situation the exposure draft of July 2007 proposes changes to the exposure draft of December 2006. Furthermore, the person who reads the chapter on 'fees' will not directly realize that the term 'firm' includes every 'network firm'. This might lead to misunderstandings and causes unnecessary risks.	NIVRA	Paragraph 290.219 change to refer to firm and network firm
159.		**Fees Relative Size**		
160.	General	We welcome the Board's effort to clarify steps to be taken by audit firms, in response to the situation where there is economic dependence upon specific audit clients. However, we note that the Board has chosen to focus its coverage on one single form of economic dependence, the situation which arises most commonly in smaller audit firms at the total firm revenues level.	IOSCO	General comment
161.	General	In response to the specific questions in relation to *Fees – Relative Size*, we support the proposals in relation to audit clients that are entities of significant public interest, whereby if the total fees from that client exceed a specified percentage of the total fees of the firm, mandatory safeguards should be applied. We consider that 15% is an appropriate threshold, given that the safeguards to be applied would be mandatory. Further, we consider that the proposed mandatory safeguards would be appropriate.	PAOC	Supportive comment
162.	General	Although the 15% may appear somewhat arbitrary, it seems, in our view, to be a reasonable threshold and represents what would be a clearly significant client of the firm.	DTT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
163.	General	APESB is supportive of IESBA's proposals in respect of Internal Audit services and Fees – Relative size stated in the exposure draft.	APESB	Supportive comment
164.	General	We agree with the IESBA's decision to provide quantitative guidance with respect to the relative size of fees from an audit client that is an entity of significant public interest. We believe that establishing such a specific percentage of a threshold would clearly state the requirements of the independence provisions and avoid confusion: thereby, efficient to implement. We also believe that 15% is an appropriate and reasonable threshold.	KICPA	Supportive comment
165.	General	We support the IESBA's proposal to establish such a threshold and believe that 15% is an appropriate level at which to set this condition	ICAS	Supportive comment
166.	General	The 15% level strikes us as judicious.	Mazars	Supportive comment
167.	General	Grant Thornton International is supportive of establishing a threshold and although the 15% seems to be an arbitrary percentage, other regulators have used this percentage and it appears reasonable. We are supportive of this threshold.	GTI	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
168.	General	APESB considered the following alternatives in concluding on our comments on this matter: • 5% threshold – whilst it is important to remain vigilant about all threats to independence regardless of the magnitude of associated fees, we consider 5% and below too low a point at which mandatory safeguards need to be applied. • 10% threshold – audit engagements commonly use a 10% threshold upon which to base decisions on materiality. Further a fee of 10%, particularly where the fee represents a large proportion of the revenue for an individual partner, can in some circumstances lead to independence issues. Given this, 10% is not an unreasonable alternative. • 15% threshold – at this level fees represent a significant proportion of the firm's revenue and also are likely to be a large proportion of the revenue for an individual partner. At this point, implementation of mandatory safeguards is desirable in addition to internal safeguards firms may have in place. As part of APESB's development of exposure draft Contingent Fee Arrangements for Assurance Clients, consideration was given to threshold levels in relation to fees as noted above. Where the fee was likely to exceed 10% of the Firm's total fees or 15% of the total fees for that part of the Firm by reference to which the Lead Engagement Partner's remuneration is calculated, it was considered to be material. Based on the above analysis, we are supportive of the level at which mandatory safeguards should apply.	APESB	Supportive comment
169.	General	Given the Board's most current tentative decisions on how to define entities of significant public interest, we do not object to the 15% threshold.	AICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
170.	General	The threshold is appropriate to ensure that the firm is not overly reliant on any one particular client so that the auditor's judgment and independence are not influenced by financial considerations. The Institute is of the view that the 15% threshold is practical and not overly onerous on firms	MIA	Supportive comment
171.	General	Section 290.215 introduces a new requirement for audit clients that are entities of significant public interest. When for two consecutive years, the total fees for the client and its related entities represent more than 15% of the fees received by the audit firm, the self interest threat would be too significant unless one of two alternative safeguards were applied to the following year's audit. The Committee is of the view that it is appropriate to establish such a threshold. However, whilst 15% would appear reasonable, an explanation of the method that was used to calculate this percentage would enable respondents to better assess whether an alternative percentage would be more appropriate.	ICPCA	Supportive comment
172.	General	We welcome the retention of the principles-based or threats and safeguards approach to the issue of fee dependency. We consider that the new safeguards proposed to be required for audits of entities of significant public interest are reasonable	FEE	Supportive comment
173.	General	It is appropriate to establish a threshold – suggest ten per cent threshold for independence of auditor Fifteen per cent be changed as ten per cent	RM	Minority comment
174.	General	We are broadly supportive of the proposed changes, in particular the safeguards suggested to mitigate the threats. We are, nevertheless, concerned at the bright-line nature of the fee dependency provisions. The inclusion of a fixed percentage (15%) limit on fees from any one client is at odds with the principles-based approach. This is because it does not consider other factors within the audit environment such as the significance of the fee to a particular office or a particular partner.	ACCA	Broadly supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
175.	General	We believe that the impact on smaller firms in relation to the independence threat created by one client comprising a major portion of the firm's income is much greater than in larger firms. Furthermore, we believe that smaller firms would in most instances be faced with this threat when they start up a practice, more so than for larger firms	IRBA	Minority comment – mandatory safeguards apply to public interest audit client and to the second year's audit
176.	General	We are of the view that the Code should be drafted using a conceptual framework approach rather than in a prescriptive manner to facilitate ease of application by all jurisdictions. As such, it might not be appropriate to establish a threshold. The Code may prescribe that a threshold be set by the particular jurisdiction.	ICPAS	Alternative view on fixed percentage
177.		At the time when we developed the APB Ethical Standards, there was extensive discussion about this topic. We believe that no safeguard is likely to be effective when the auditors are economically dependent on an audit client. Additionally, for the requirement to be consistently applied, it is necessary to quantify the threshold for economic dependence. While recognising that this approach is more 'rules-based' than 'principles-based', many of our stakeholders have supported it and consider the limits that we have set for economic dependence (10% of total fee income for listed entities and 15% of total fee income for non-listed entities) to be appropriate. Therefore, we believe that: • The self-interest threat that is created when the fees generated from an audit client represent a large proportion of the total fees of the firm is much more significant than suggested in the July ED. • The safeguards suggested in paragraphs 290.213 and 290.215 are insufficient to reduce the self-interest threat to an acceptable level in circumstances where the fees from the audit client in relation to the firm's total fees are greater than 15% or 10% respectively.	APB	Guidance changed to make it clear that if fees exceed 15% one of the mandatory safeguards should be applied to the next year's audit opinion.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
178.	General	We believe it is appropriate to fix a fee limit in the case of EIPs and we equally believe that this limit could also be applied to all audit clients	Mazars	Minority comment
179.	General	Provision of guidance as to what constitutes "a large portion of the total fees of the firm" is supported and 15% seems reasonable. We can see no reason, however, why this threshold should only apply to entities of significant public interest.	ICANZ	Alternative view on fixed percentage
180.	General	Similarly, the varying legal and cultural frameworks in different jurisdictions may result in very different influences on what levels of income and other factors would be likely to result in fee dependency. In particular, we are concerned that: a fixed percentage by its very nature, is arbitrary and does not take into account specific circumstances. This could mean 14.9% of total fees would be acceptable whereas 15.1% would not the basis and period for computing a fixed percentage may vary, depending on the types of services provided, the cut-off period, etc. a fixed percentage might have a disproportionate impact on smaller audit firms having one or very few significant public interest entities as an audit client there is a risk that auditors of significant public interest entities would only consider whether the percentage rule applies and would not consider the concept as a whole (fees related to network, firm, office, partner) as noted above and a fixed percentage may also impact on the concentration and choice in the audit market. A degree of flexibility is needed because stringent inflexible requirement relating to audits may further hinder small firms from becoming auditors of entities of significant public interest in some jurisdictions. We would refer you to the UK Financial Reporting Council Discussion Paper: Choice in the UK Audit Market in this regard. (see http://www.frc.org.uk/images/uploaded/documents/Choice%20in%20the%20UK%20Audit%20Market%20Discussion%20Paper4.pdf).	ACCA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
181.	General	However, paragraph 290.215 includes a fixed percentage or absolute limit that is to be considered by the auditor in determining the appropriate relative size of fees to be received from an entity of significant public interest. FEE is in favour of a conceptual approach in relation to the relative size of fees for all audit clients, whether entities of significant public interest or other. Audit firms should, on a regular basis, review fees at different levels within the network, audit firm, office and also at partner level to determine whether objectivity is not compromised. The European Commission Recommendation on Independence recommends in Chapter 8.2 such approach by considering fees from one audit client making up an unduly high percentage of the total revenues.[5] We also support as a general approach the approach taken in drafting paragraph 290.213 using terminology such as "large proportion of the total fees of the firm". Cont'd	FEE	Alternative view on fixed percentage

[5] Relationship between total fees and total revenue:

- The rendering of any (audit and non-audit) services by a statutory audit, an audit firm or a network to one audit client or its affiliates should not be allowed to create a financial dependence on that audit client or client group, either in fact or in appearance.
- A financial dependency is considered to exist when the total (audit and non-audit) fees that an audit firm, or a network receives or will receive from one audit client and its affiliates make up an unduly high percentage of the total revenues in each year over a five-year period.
- The statutory auditor should also consider whether there are certain fee relationships with one audit client and its affiliates which may appear to create a financial dependency in respect of a person who is in a position to influence the outcome of the statutory audit.
- In any case, the statutory auditor, the audit firm or the network should be able to demonstrate that no financial dependency exists in relation to a particular audit client or its affiliates.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
182.	General	Therefore, we are of the opinion that it would be better not to include such fixed percentage or absolute limit in an international, principles-based code of ethics. The varying legal and cultural frameworks in different jurisdictions may result in very different influences on what levels of income and other factors would be likely to result in fee dependency. Additionally: • A fixed percentage or absolute limit is arbitrary (i.e. 14.99% of total fees would be acceptable but 15.01% would not be acceptable) and does not take into account any particular circumstances; • The basis and period for computing a fixed percentage or absolute limit might be interpreted in different ways, depending on the types of services provided, the cut-off of the period, etc; • The imposition of a fixed percentage or absolute limit (rather than another appropriate fee limit) might have a disproportionate impact on smaller audit firms having one or very few significant public interest entities as an audit client; • There is a risk that auditors of significant public interest entities would only consider whether the percentage rule applies and would not consider the whole concept (fees related to network, firm, office, partner) as described above. • A fixed percentage might also impact on the concentration and choice in the audit market. A degree of flexibility is needed because stringent inflexible requirements relating to audits may further hinder small firms from becoming auditors of entities of significant public interest in some jurisdictions. Reference is made to the work currently being done by the UK Financial Reporting Council in this respect[6].	FEE	Alternative view on fixed percentage

[6] http://www.frc.org.uk/images/uploaded/documents/Choice%20in%20the%20UK%20Audit%20Market%20Discussion%20Paper4.pdf

X ref	Par Ref	Comment	Respondent	Proposed Resolution
183.	General	We are also very concerned that the imposition of such a fixed percentage or absolute limit could be the first step towards a prohibition regardless of the circumstances. This might also set an unacceptable precedent for the introduction of other detailed rules and prohibitions within the code of ethics. Therefore, if IESBA were to decide, after due consideration of the comments received on this specific aspect of the ED, that a fixed amount or absolute limit in relation to the determination of the appropriate relative size of fees to be received from an entity of significant public interest should be included in the code of ethics, guidance on application is needed. Such guidance should focus on the use of different percentages depending on the varying circumstances in which they should apply. Examples should not only consider quantitative but also qualitative and contextual aspects of the clients under audit.	FEE	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
184.	General	As to the use of a fixed percentage as a trigger to indicate economic dependence and to specify the need for stated remedies, we have some reservations. First of all, the use of a specific percentage is generally not consistent with a principles-based standard approach. Second, a fixed percentage is more appropriately used as an alert or signal to trigger a review by appropriate parties, than a threshold to install specific remedies. Facts and circumstances are important in the evaluation of independence issues. A third concern with this section of the Code is that we do not think the bulleted examples of safeguards in paragraphs 290.213 and 290.15 and the single safeguard mentioned at the end of paragraph 290.14 would be sufficient and effective in addressing the economic dependence threats. An auditor or audit firm who is already economically dependent on a client is less likely to consult with others on all the relevant judgments that might be affected and may not even mention all such matters in audit work papers that could be reviewed by others. This makes some of the safeguards now listed unlikely to be effective if used by themselves.	IOSCO	Alternative view on fixed percentage Minority view on safeguard regarding non PIE audit clients. Mandatory safeguards required for audit clients that are PIEs.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
185.	General	On the question as to whether it is appropriate to introduce a maximum percentage of fees received from a statutory audit client that is an entity of significant public interest, we would like to express our strong reluctance. We are strongly against the principle of the introduction of a level of percentage for the following reasons: • Although the threats and safeguards approach is presented as the basis of the Code, the introduction of a percentage criterion moves closer to a rules-based approach. The fact that the revised version of the IFAC Code seems to move away from this approach is a matter of concern for us and we strongly believe that the threats and safeguards approach is highly necessary because it gives the opportunity both to take the professional member's judgement into account and to escape from the contingent and limited nature of a set of rules. Accordingly, we regret the moving away from the principles-based threats and safeguards approach on this particular issue. • As to the criterion of 15% or any percentage what so ever, doesn't seem very clear or very logical. For instance, it may well be the case that the risk of economical dependence exists even though the client represents only 5% of the firm's income. Furthermore, it is difficult to prove the existence of risk at 15,1% and not at 14,9 %. Conceptually, we do not understand this logic. • We draw the attention of the IESBA on the fact that the choice of a precise percentage leads to the necessity to detail all the elements, rules and methods retained to make the exact calculation of the relative size of fees. For example, it will be necessary to define : o if the taxes, the expenses, the costs of subcontracting or outsourcing have to be included in the calculation, o the way the exchange rates and costs have to be taken into consideration, o the exact periods accepted for the calculation : year or audit period and, if it is audit period, how to manage with audit periods with special term, o the way the variations between successive years have to be considered, o if the percentage is calculated on the basis of fees invoiced or paid, o Etc. Cont'd	CNCC OEC	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
186.	General	• In addition, we wish to point out that the introduction of any given percentage criterion has always been rejected by IAASB for example (no percentage is set in the ISA "materiality") as well as by the European commission in its recommendation on auditors independence. The EC recommendation states that financial dependency is considered to exist when the total fees that an audit firm or a network receives from one audit client and its affiliates make up "an unduly high percentage of the total revenues". • We also point out that this method does not take into account the respective size of the other clients (whether they are public interest or not public interest) in the portfolio of the firm • Such a provision, in our view might constitute a barrier or an impediment to the entry of new auditors in practice by setting their own firm with very few clients. Cont'd	CNCC OEC	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
187.	General	More generally, we are concerned about the multiplication of safeguards such as rotation, high frequency of quality controls, introduction of maximum fees percentage…that will result on the necessity to resign from or not accept PIES engagements. However, we deem it essential to maintain minimum continuity of the auditors in order to meet the objective of audit quality. Moreover this would lead to excluding a lot of Professionals and in turn this will increase the concentration of the firms in the profession which is already an issue at stake for regulators within the EU. Consequently, we suggest that all the other requirements set by the Code to ensure audit quality and independence, such as a periodical independent quality control review (as laid down by the Europeans) and rotation should be taken into account before considering the introduction of a fees percentage. Therefore we would prefer paragraph 290.213 to be completed with the safeguards listed in paragraph 290.215.	CNCC OEC	Alternative view on fixed percentage
188.	General	We do not agree that it is appropriate to stipulate a definitive threshold in paragraph 290.215 in respect of audit clients that are entities of significant public interest. Instead we believe a degree of flexibility is needed because stringent inflexible requirement relating to reviews may further hinder smaller firms from becoming auditors of entities of significant public interest in some jurisdictions. Therefore we suggest an alternative to the proposals. Should the IESBA continue to believe that a definitive threshold is needed, we suggest that this issue be dealt with by means of a presumption so that the firm would have to demonstrate that the self-interest threat is not of such significance as to warrant these safeguards.	WpK	Alternative view on fixed percentage
189.	General	Although we agree that the relative size of fees could create independence threats, we have significant concerns regarding the proposed provisions.	E&Y	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
190.	General	The exposure draft states that if, for two consecutive years, the total fees received from an audit client of significant public interest and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm should disclose the facts to those charged with governance of the client and apply one of the two alternative safeguards to the following year's audit. We consider that it would be more practical to establish such a specific threshold than to have general guidelines with no specific amounts and would likely lead to more consistent application. However, establishing such a specific threshold is contrary from the approach generally taken in the Code of Ethics of IFAC. Therefore, we recommend that such a specific threshold would be given as an example and establishing a specific threshold be assigned to member associations as their discretion.	JICPA	Alternative view on fixed percentage
191.	Consider at office level	We are also of the view that the economic independence should be considered at the most adequate level and we wonder if the office level wouldn't be more appropriate than the firm level. One has also to clarify if the fees received by the affiliates of the firm are to be taken in account or not.	CNCC OEC	Minority comment
192.		**Fees 15% Threshold**		
193.	General	Where total fees generated from an audit client are significant, a self-interest threat arises. Whilst the significance of the threat will depend upon factors such as the structure of the firm and whether the firm is well established or newly created, it is important that firms take a consistent approach to the implementation of safeguards. Accordingly, APESB supports the establishment of a threshold to initiate the application of safeguards by entities of significant public interest.	APESB	Supportive comment

<table>
<tr><th>X ref</th><th>Par Ref</th><th>Comment</th><th>Respondent</th><th>Proposed Resolution</th></tr>
<tr><td>194.</td><td>General</td><td>Given the audit quality controls that firms are required to implement, such as those required by ISQC1, we believe that a "threats and safeguards" approach to addressing this issue is appropriate for all entities, including entities of public interest. However, because of the potential threats to independence and the need for consistency of application, we recognize that a “bright-line” rule is likely the most effective way of implementing the proposed guidance in connection with entities of public interest. We believe, however, that the rule may not always achieve an appropriate result.

The first sentence will likely be interpreted as follows in these example situations, as we believe is the Board’s intent: Cont’d</td><td>PwC</td><td>Guidance changed to make it clear that if fees exceed 15% one of the mandatory safeguards should be applied to the next year’s audit opinion.</td></tr>
<tr><td>195.</td><td>General</td><td><table><tr><th>Scenario</th><th>Year 1</th><th>Year 2</th><th>Year 3</th><th>Safeguard needed in year 3 (Y/N)</th></tr><tr><td>1</td><td>16%</td><td>16%</td><td>16%</td><td>Y</td></tr><tr><td>2</td><td>16%</td><td>16%</td><td>10%</td><td>Y</td></tr><tr><td>3</td><td>20%</td><td>10%</td><td>10%</td><td>N</td></tr><tr><td>4</td><td>20%</td><td>10%</td><td>16%</td><td>N</td></tr></table>
There is an argument in Scenario 2 that if the percentage is expected to remain at 10% thereafter, that a review in year 3 is not necessary; conversely, in Scenario 4, a review in year 3 would seem appropriate (recognising of course that such might be the outcome of the application of 290.213). This only demonstrates the difficulty of drafting ‘rules’ which can deal effectively with a range of situations, rather than relying on principles. Accordingly, we recommend that the need to implement a recommended safeguard should be based on reasonable best estimates of expected fees after Year 2.
Cont’d</td><td>PwC</td><td>See above</td></tr>
</table>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
196.	General	The Board has proposed that specific safeguards are required if fees exceed 15% (for two consecutive years). We understand that there is no science to this number and in view of how the Board intends to define entities of public interest (as tentatively agreed during its deliberations on the Comments on the 2006 ED), we are of a view that this is not inappropriate. We are supportive of the approach that allows for safeguards in such circumstances, rather than a prohibition on acting for the client in such circumstances.	PwC	See above
197.	General	The ICJCE agrees with the content and approach used in paragraphs 290.213 and 290.214 as far as threats and safeguards approach is applied. However in paragraph 290.215 a fixed percentage is included to set when a relative size of fees is significant to an auditor or an audit firm. We are of the opinion that is preferable not to include any reference to a fixed amount because it is always arbitrary and cannot reflect all national realities. We would rather see a degree of flexibility and a guide to fix the own limits or percentages in the application material.	ICJCE	Alternative view on fixed percentage
198.	General	We consider establishing a specific threshold is as mentioned above. We also consider that more explanations would be necessary about a question as to why it should be 15% or why it should not be another percentage.	JICPA	Alternative view on fixed percentage
199.	General	NIVRA questions the desirability to decide on a 15% limit. A threat at a relative size of 14% will be fairly equal to one at a relative size of 16%, whereas there are huge differences between safeguards to be made in both situations. Consequently NIVRA prefers a qualitative rather than a quantitative limit.	NIVRA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
200.	General	While we acknowledge and welcome the retention of a principles-based approach to this issue, we are of the view that it is not appropriate to establish a specific threshold for the acceptable level of relative size of fees for public interest entity audit clients because: a) a threshold is not compatible with a principles-based approach to ethics b) there is no explanation as to how this threshold was arrived at. Why is fee dependency of 15% so significant as to require certain safeguards while receiving 14% of total fees from one client is not? c) there is a risk that such a specific rule within a particular section of a long code n be accidentally overlooked by users, since sections B and C ostensibly cont examples of the application of the principles. We also urge the IESBA to consider whether requiring an extra review for public interest entities as a safeguard where total fees are over 15% of a firm's income might push large clients towards the larger firms, for whom the fees will form less than 15% of their total fees received. It might conceivably be cheaper for a client to move their audit to a larger firm than to stay put and pay for an extra review. We believe that there is a need for dialogue as to whether and how IESBA has evaluated the potential impact of this risk. We are also of the view that the 15% threshold may encourage circumvention – one of the key risks of a rules-based approach to ethics – with firms purposely setting a client's audit fees so that their total fees remain below the 15% level. This could in turn risk compromising audit quality, and might also be considered by some regulators to be the first step towards anti-competitive pricing practice	CIMA	Alternative view on fixed percentage
201.	General	Defining a percentage point threshold globally does not seem appropriate. Whether there should be a threshold or not depends on the specific local scenarios; and hence should be dealt with at the local professional bodies' level	ICAP	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
202.	General	In relation to fees and a threshold of 15%: (i) We support the view that it would be appropriate to require disclosure to those charged with governance. (ii) Although we support the alternative safeguards, we question the practicality of pre issuance and post issuance reviews as this will add to the costs of an audit firm. We do not support the inclusion of a fixed percentage in determining whether the percentage fees from one client represents a threat to independence to a firm, especially because the Code is to be used in different jurisdictions.	IRBA	Alternative view on fixed percentage
203.	General	FAR SRS agrees that the relative size of fees could create independence threat. However, we are concerned that the very detailed rule introduced in this section is a deviation from the principle-based conceptual framework of IFAC. FAR SRS is reluctant to see a set threshold of 15 % of fees in the code	FAR	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
204.	General	The 15% other fee threshold for non-attest. services is not realistic. Greater than 50% is more reasonable. No threshold is even more preferable. Most small closely-held businesses have many other issues on which they need advice, and this would limit their CPA who knows the most about the company to provide informed assistance. The judgment of the firm and the entity should be enough as to any required communication. Our international colleagues in our profession refer to the U.S. system as too "rules" based, and they believe their standards are more "principles" based. Yet the 15% threshold is a clear example of a rules-based approach. Regardless of threshold, clearly written communication regarding non-attest services is appropriate. Alternative methods offered for "pre-" or "post-" issuance reviews are appropriate. It is not clear why the "post" issuance review must be performed one out of three years. A pre-issuance review is more appropriate. Our Quality Control Standards are moving in this direction. That movement is not a result of independence issues, but more from audit risk criteria pertaining to industry, initial engagements, regulatory requirements, etc. We cannot recommend any alternative safeguards that would work for firms within our membership other than communication and the alternative methods for "pre-" or "post-" issuance review	CPAA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
205.	General	By including a fixed percentage in the code, the code will move further away from the principle-based approach. We would like to express our general concern regarding the increasing use of detailed rules in the Code of Ethics. In our opinion, there should not be a fixed percentage or absolute limit regarding the relative size of fees in relation to the issue of independence. Questions of independence will depend on a number of various considerations, and the question must be evaluated by using professional judgement, regardless of the audit client being an entity of significant public interest or not. A threshold of 15 % is arbitrary, and developing a single definition of a relative size of fee that would cause a threat to independence, which will be suitable in every country, seems both impracticable and impossible.	DnR	Alternative view on fixed percentage
206.	General	Generally, we agree that there should be safeguards in respect of fees where the client is of major significance to the auditors revenue stream. However, we feel that it is too premature to comment on whether the suggested safeguards are appropriate and practical when what is an ESPI has yet to be defined. We are particularly concerned that the ESPI concept risks embracing many smaller not-for-profit entities and burdening them with additional audit costs. In this regard, we would recommend that more guidance be provided to sole practitioners and the smaller accounting firms of appropriate and practical safeguards which may be relevant to them. For sole practitioners and smaller accounting firms, it could be a difficult task of sourcing an engagement quality control reviewer who is not a member of the firm for both a post-issuance review or a review prior to the issuance of the audit opinion. In this regard, we are concerned that if the final Standard is issued as drafted, it will create difficulties in establishing new audit firms that audit ESPIs. An initial client base of a new audit firm is more likely to include a few large clients than a large number of smaller clients. This would not be in the public interest	HKICPA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
207.	General	Consensus could not be reached on the issue of the 15% threshold and the application of the safeguards should this figure be exceeded. Some members of the Committee felt unable to comment on the threshold without understanding how the IFAC Ethics Committee arrived at this figure, whereas others felt the threshold was just right. A similar disagreement occurred with the safeguards, with some members stating that they were appropriate, and others questioning whether they were sufficient.	SAICA	Mixed comment
208.	General	We are a strong supporter of the IFAC conceptual approach of threats and safeguards to achieving and maintaining independence. We have found this approach very appropriate and proportionate to the variety of situations encountered by our firm. Although we agree that certain situations should clearly be prohibited as the result of a robust assessment, we are concerned that the very detailed and overly prescriptive rule introduced in this section is a departure from the principle-based conceptual framework of IFAC and results in a number of adverse outcomes that are generally absent from the Code of Ethics. Accordingly, we are reluctant to see a set threshold of 15% of fees in the Code, since we believe this could become a point of reference to be applied in other situations where materiality is a consideration. In addition, the explanatory memorandum provides no indication about the rationale used to determine the 15% as an absolute universal threshold and how it would be applicable in all countries regardless of the size, condition, development and maturity of the local market.	E&Y	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
209.	General	Again, we welcome the retention of a threats and safeguards approach to the issue of fee dependency. We consider that the new safeguards proposed to be required for audits of entities of significant public interest are not unreasonable in themselves. However we query if an absolute limit of a fixed amount is really appropriate in an international principles-based code. The varying legal and cultural frameworks in different jurisdictions may result in very different influences on what levels of income and other factors would be likely to result in fee dependency. We would be very concerned if the imposition of a fixed limit was the first step towards a prohibition regardless of the circumstances.	ICAEW	Alternative view on fixed percentage
210.	Disclosure	APESB is supportive of the requirement to disclose to those charged with governance where the threshold of 15% is exceeded. We consider this to be an essential safeguard as it ensures that those charged with governance of the entity, are fully aware of significant fee arrangements and has considered potential threats to independence when approving additional professional services to be provided by the professional accountant or firm who is the assurance service provider.	APESB	Supportive comment
211.	Disclosure	In our view, it is appropriate to disclose to those charged with governance the fact that the 15% threshold has been exceeded as the entity should be informed that additional safeguards are required to be implemented by the practitioner as a result, and the costs of applying these safeguards will be passed onto the entity.	IRBAA	Supportive comment
212.	Disclosure	The Institute is of the view that disclosure to those charged with governance is appropriate and necessary. This will allow those charged with governance to confer with the auditors regarding issues of risk that could arise as a result of the fee dependency and also to address the perception that the independence of the auditor may be impaired as a result of the fee dependency	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
213.	Disclosure	We consider it appropriate that if, for two consecutive years, the total fees received from an audit client of significant public interest and its related entities represent more than a certain specific percentage of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm should disclose the facts to those charged with governance of the client.	JICPA	Supportive comment
214.	Disclosure	We agree with the proposals to require disclosure to those charged with governance and to employ safeguards to the following year's audit.	ICPAS	Supportive comment
215.	Disclosure	The Committee is of the view that it is appropriate to require disclosure to those charged with governance of the fact that the 15% threshold has been exceeded as: • this would enable the audit client to form its own opinion of any potential self interest threat to the audit firm, and, • the approval of the audit client will be required in order to grant access for the engagement quality control reviews. (see below)	ICPAC	Supportive comment
216.	Disclosure	We believe it is appropriate to require disclosure to those charged with governance, who play an important role in evaluating the auditor's independence, including the safeguards applied by the firm. We also support limiting this requirement to discuss the relative size of fees with those charged with governance to entities of significant public interest	DTT	Supportive comment
217.	Disclosure	Yes, we believe this is a necessity [to require disclosure to those charged with governance].	ICAS	Supportive comment
218.	Disclosure	We fully support the disclosure requirement to those charged with governance when the threshold is exceeded. In addition, we are also generally supportive of the alternative mandatory safeguards of a pre-issuance or a post issuance review to adequately address the threat to independence.	KICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
219.	Disclosure	We do not believe that disclosure to those charged with governance is an appropriate safeguard, rather we recognise the potential intimidation threat that may arise where information regarding the financial stability of the individual partner and the firm is disclosed.		Minority comment
220.	Disclosure	Disclosure to those charged with governance is not an appropriate and is not a sufficient safeguard. Once threshold limit is accepted, exceeding threshold disclosure is not required.	RM	Minority comment
221.	Disclosure	We do not support the requirement to make disclosure to a governing body. We can not see what this achieves as it doesn't change the situation – independence is still threatened. Requiring an independent review of the audit file is probably the only practical safeguard in this situation, other than taking steps to reduce the dependency on a single client. However, again, it is not clear that this will deal satisfactorily with the threat to independence in appearance.	ICANZ	Minority comment
222.	Disclosure	However, we are not necessarily in favor of the need of a communication regarding this situation, as it may be in a network firm a transitional situation, dully know and actively managed in connection with the development of the firm, and that competition and choice must be kept encouraged in the audit market, mainly in a context of group audits.	Mazars	Minority comment
223.	Disclosure	The disclosure to those charged with governance can create other issues, instead of serving as a safeguard and is expected to affect the overall auditor – client relationship.	ICAP	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
224.	Disclosure	We do not believe that disclosure to those charged with governance is an appropriate safeguard as it would not mitigate the self-interest threat. We believe that disclosing the significance of the fees would in fact, put the accountant in a position in which an intimidation threat could be encountered as the client now would have significant information regarding the financial stability of the accountant and the accounting firm. We believe that the safeguards discussed in the next paragraph would be sufficient to reduce this self-interest threat to an acceptable level.	GTI	Minority comment
225.	Disclosure	We would not agree with the proposal that when a threshold is exceeded, it is a requirement to make a disclosure to those charged with governance. We would request IESBA to reconsider whether the making a disclosure to those charged with governance would potentially create an intimidation threat	HKICPA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
226.	Disclosure	We think the Board needs to give more thought to actions and processes that could serve as effective safeguards against the threat of economic dependence, and especially to specify that rarely will a single action or safeguard be sufficient to address such threats. We also urge the Board to state in the Code that "discussion of a threat" with those responsible for governance or "disclosure of a threat" to those parties does not constitute a safeguard in itself, but rather is an important and required action that should precede identification and development of appropriate processes to serve as safeguards. In this regard, we request the Board to include a discussion on why it is important for the auditor to discuss the extent and nature of fees charged with the audit committee or others charged with governance and any issues of economic dependence thereby raised, and to expand the discussions regarding safeguards to cover the need to - Take steps to reduce or mitigate dependency on the client over time; - Develop policies and procedures for internal and external reviews to monitor and implement quality control of assurance engagements and specifically to address the threat of economic dependence. - And provide examples of actions, processes and procedures that would be effective, in combination, in mitigating economic dependence threats. (For example, one potential remedy for an economic dependence threat arising in a firm of any size might be for the auditor and the audit committee to discuss the economic dependency and jointly develop additional quality control and oversight measures that could address the threat.) We think it is important for the Code to note that measures such as those noted above can also assist auditors in developing the appropriate tone and culture within the audit firm itself. It is important that the audit firm itself also be directed to identify, acknowledge and address economic dependence threats.	IOSCO	Guidance changed to require auditor to disclose to those charged with governance fact that fees exceed 15% and the safeguards that will be applied to reduce the threat to an acceptable level

X ref	Par Ref	Comment	Respondent	Proposed Resolution
227.	Disclosure to users	It was, however, suggested that the Code should ensure disclosure of the independent service and the percentage of the audit fee to the users of the financial statements especially where public interest companies are involved and then users will decide if this risk is acceptable to them and act accordingly.	SAICA	Minority comment
228.		In principle, we do not support the setting of an absolute threshold. We would prefer that the approach taken by the IESBA considers the distribution of audit fee size rather than setting on one "bright line". For example, the threat posed by a client contributing 15% of audit fees if there is one of 6 similarly sized clients differs from the case where there is one very large client (say 40%) and over 100 small clients. It is difficult at this stage to comment whether a threshold of 15% is appropriate as we have no data on the distribution of audit fees and are not clear on the application of the concept of "entity of significant public interest".	HKICPA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
229.		The guidance on the relative size of fees includes proposed safeguards involving the use of a "professional accountant who is not a member of the firm" to perform certain reviews. We believe that such safeguards have complicated implications, such as the independence of the reviewing professional accountant and his or her firm, which for practical purposes limit their effective application. We acknowledge that the review might be performed by a professional accountant from a "network firm"; however, this may not be helpful to a smaller local firm, where the possibility of exceeding the 15% threshold would seem to be greater. The proposed 15% threshold appears to be unsupported by statistical or other analysis and to be somewhat arbitrary in its application having regard to the different sizes of firms and the absence of effective safeguards. Accordingly, we would suggest that the 15% threshold be introduced as a guideline only. We would also suggest that other safeguards be identified. In this regard, where the professional accountant practices in a jurisdiction where there is formal practice inspection having appropriate frequency, a possible safeguard would be for the professional accountant to request that the practice inspectors review the particular client's audit file.	CICA	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
230.		We are of the opinion that the establishment of a fee threshold is appropriate. We have no significant issue with establishing the fee threshold at 15%. In our view, the proposed revisions to section 290 on fees – relative size are appropriate because they make it clearer that firms must consider and document the effect on independence when a self interest threat may arise due to economic dependence. In addition, we agree with the use of the safeguards outlined in paragraph 290.215 because exceeding the 15% threshold does not in itself mean that independence has been impaired because of undue economic dependence or that the provision of audit and/or other engagements must cease.	AGNZ	Supportive comment
231.		It should also be stressed that in the case of PIEs, the obligation of rotation of key audit partners every 7 years is in itself an additional safeguard already provided for by the Code.	Mazars	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
232.		The Australian Professional and Ethical Standards Board (APESB) and other regulators have used the specified percentage in the Australian context for some years and it has been accepted as reasonable. Details of the current Australian requirement follow: AUST 290.206.1In all cases where the fees generated by an Assurance Client exceed 15% of the Firm's total fees the following safeguards are necessary to reduce the threat to an acceptable level: • Involving an additional professional accountant who was not part of the Assurance Team to carry out reviews of the work done, or otherwise advise as necessary; • Provide documentation of such review to the applicable professional body, during quality review. Where an Assurance Client provides a Firm with an unduly large proportion of its total fees, the only course of action is to refuse to perform, or to withdraw form , the Assurance Engagement. The ED proposes that when the total fees from an entity of significant public interest exceeds 15% for two consecutive years the self interest threat to the auditor may be too significant. This provision differs from AUST 290.206.1 which is silent on this aspect. The IESBA is requested to consider this variation in the context of achieving an alignment between the international and Australian requirements.	Australia	No change proposed – guidance indicates that the threat would be too significant unless the safeguards are applied
233.		We are supportive of the 15% threshold, but question the appropriateness of limiting the application of a threshold to audit clients that are entities of significant public interest, without guidance as to what represents a large proportion of total fees for the firm or a large proportion of the revenue from an individual partner's clients. We would like to confirm our interpretation of the proposed Para's 290.213 and 290.214 that fees/revenue of less than 15% are not considered to represent a large proportion. Further guidance that addresses the threshold that should apply at the individual partner level would be useful.	Australia	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
234.		We support the retention of the principles-based threats and safeguards approach to the issue of fee dependency. We consider that the new safeguards proposed for audits of entities of significant public interest are not unreasonable. However, we have previously expressed our concerns about the introduction of a fixed percentage or absolute limit in an international, principles-based Code of Ethics. It has been our contention that the application of an arbitrary bright-line rule when included within the principles-based approach should be provided as guideline rather than absolute requirement. We are aware that the IESBA is seeking to strengthen the Code, particularly in relation to significant public interest entities, and in this regard understand that it would be difficult to achieve this in the absence of identifying the point at which safeguards should be introduced.	CARB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
235.		We had previously commented in our letter dated April 26, 2007 on the increasing tendency for the IFAC Code of Ethics to become rules rather than principles-based. In this context, we fully support the approach taken in drafting paragraph 290.213 using terminology such as "large proportion of the total fees of the firm" but do not agree that it is appropriate to stipulate a definitive threshold in paragraph 290.215 in respect of audit clients that are entities of significant public interest. We believe that a degree of flexibility is needed; in particular since implementing the safeguards specified will result in additional costs to the firm. There may be situations in which the burden of these costs may be disproportionate to any benefit that could be derived there from. Whilst we accept that it may be appropriate to disclose the proportion of fees to those charged with governance such as an audit committee, we are concerned that such a stringent inflexible requirement relating to reviews may further hinder smaller firms from becoming auditors of entities of significant public interest in some jurisdictions. As an alternative to the proposals, should the IESBA continue to believe that a definitive threshold is needed, we suggest that this issue be dealt with by means of a presumption. This would mean that a firm would need to apply the safeguards foreseen in paragraph 290.215 of the Code, unless the firm is able to demonstrate that the self-interest threat arising from two consecutive years in which the total fees from the client and its related entities represented more than 15 % of the total fees received by the firm expressing the opinion on the financial statement of the client, were not of such significance as to warrant these safeguards	IDW	Alternative view on fixed percentage

X ref	Par Ref	Comment	Respondent	Proposed Resolution
236.		In addition, we are unsure as to the application of paragraph 290.215 in respect of voluntary engagements, such as those involving interim reporting or engagements to review financial statements, since this particular paragraph is directed primarily at annual financial statement audits. We suggest the IESBA include additional guidance or amend the wording to clarify whether such voluntary engagements are covered. For example, the opening sentence of this paragraph refers to "audit client", we believe this should refer to "audit or review client", if indeed such other engagements are to be covered.	IDW	Alternative view on fixed percentage
237.		**Pre and post issuance safeguards**		
238.	General	We believe that the more stringent independence requirements are appropriate and practical	IRBAA	Supportive comment
239.	General	Mandatory safeguards – pre/post issuance review are appropriate and practical	RM	Supportive comment
240.	General	The options to have either a pre- or post-issuance review provides firms with flexibility and are, in our view, appropriate.	DTT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
241.	General	We support the proposed mandatory safeguards and believe that either a pre-issuance or post-issuance review provides an appropriate and practical approach to safeguarding independence under these circumstances. We believe that when an individual knows that his or her judgments will be scrutinized by a disinterested party, whether it is in the form of a pre- or post-issuance review, they are deterred from making judgments in their own self interest. This belief is supported by: • The Securities and Exchange Commission's (SEC) exemption from its partner rotation rules for certain firms, contingent upon the Public Company Accounting Oversight Board conducting a post-issuance review of the engagement in question at least once every three years. • Many state boards of public accountancy in the U.S. requiring firms to participate in the AICPA Peer Review Program in order for them to receive licenses to provide audit and attestation services. • The Public Company Accounting Oversight Board requiring firms to undergo inspections in order to audit issuers.	AICPA	Supportive comment
242.	General	Grant Thornton International is supportive of the alternative mandatory safeguards proposed in the ED, namely a pre or post issuance review by another firm. However, we also believe that the implementation of either proposed mandatory safeguards will have a significant impact on the smaller and newly formed accounting firms in developing nations.	GTI	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
243.	General	A pre-issuance or post issuance review may be considered part of the firm's monitoring procedures which would provide an indication as to the effectiveness of the firm's compliance with its policies and procedures and professional standards. The pre-issuance or post issuance review may also be considered inspection procedures to assess compliance to the relevant standards. In this respect, the pre-issuance or post issuance review will allow the firm to establish the firm's compliance to the fee threshold and if there is a need, implement the appropriate measures to address the issue of fee dependency. As such, the Institute is of the view that the mandatory safeguard of the pre-issuance or post issuance review is appropriate and realistic.	MIA	Supportive comment
244.	General	Where the 15% threshold is exceeded, Section 290.215 introduces safeguards, whereby a professional accountant, who is not a member of the audit firm performs an engagement quality control review or (equivalent). The Committee is of the view that the alternative mandatory safeguards of a pre-issuance or a post issuance review are appropriate and should be applied invariably. However, the Committee **expressed** the view that the professional accountant who performs the engagement quality control review or (equivalent) may be a member of a network firm.	ICPAC	Supportive comment
245.	General	Furthermore, we are sceptical to place on an equal footing the two safeguards who may be applied to reduce the threat to independence regarding relative size of fees. In the case of a post-issuance-review, the review will only be preventive in nature. A quality control review prior to the issuance of the audit opinion will be both preventive and makes it possible to reveal any influence the size of the fee may have had on the audit opinion	DnR	Guidance changed to state that if fees significantly exceed 15% the firm should determine whether a pre-issuance review should be conducted

X ref	Par Ref	Comment	Respondent	Proposed Resolution
246.	General	*Pre-issuance review* We consider the conduct of a pre-issuance review as a timely safeguard in which potential threats to independence (both perceived and actual) can be addressed prior to the final issuance of financial reports. If the IESBA determines that the 15% fee level over two years is an appropriate level to identify threats to independence then we believe that the pre-issuance review is likely to be more effective than a post issuance review. *Post-issuance review* Whilst the conduct of a post-issuance review is likely to identify independence issues that occurred, post-issuance reviews by definition are conducted after the engagement is completed and often after a significant period of time has elapsed. Therefore it may be too late to act on the results of the review. As a result, whilst a practical option, post-issuance reviews may not appropriately address threats to both perceived and actual independence in a timely manner. An alternative strategy may be to require a pre-issuance review of the engagement the first time it exceeds the 15% threshold over a two year period. In this manner the first time the independence threat is identified there is a mechanism to address the threat and to identify any shortcomings of the conduct of the engagement. If no issues are identified then thereafter the professional accountant may be subject to post issuance reviews on a rotational basis. For example, the first time the threat noted above occurs a pre-issuance review is performed and assuming no issues are identified thereafter a pre-issuance review is performed every five years (or an acceptable rotation period) and in the intervening years a post issuance review can be performed.	APESB	Guidance changed to state that if fees significantly exceed 15% the firm should determine whether a pre-issuance review should be conducted

X ref	Par Ref	Comment	Respondent	Proposed Resolution
247.	General	We also consider that in order to reduce the threat of self-interest arising out of the relatively high dependence on an audit client of significant public interest for fees, requirement of "post-issuance review" would be appropriate as a safeguard, even if it is performed after the performance, considering the deterrent effect that the firm would be subject to external quality control review . As for the questions whether a "post-issuance review" is practical or not, it would be different depending on the situation in various countries and territories. In Japan, the Japan Institute of Certified Public Accountants provides a quality control review system of the firm and we think that by utilizing this system it might be possible to deal with the "post-issuance review" requirement. However, the "Pre-issuance review" seems to create some considerable difficulty in practice, because we understand that the firm would be shouldered with dual obligations to carry out an internal quality control review and a similar external quality control review during the limited timeframe before the issuance of the audit report. It might be necessary, therefore, to examine actual cases. However, as mentioned above, we understand that the "post-issuance review" would be effective, and we believe that it would be possible to increase the effectiveness of "post-issuance review" by increasing its frequency; therefore, we consider that "post-issuance review" is a more practical safeguard than that of "pre-issuance review."	JICPA	No change – both safeguards are mentioned
248.	Pre-issuance review necessary	We consider that to be effective as a safeguarding measure in this case, the independent review has to take place prior to issuance of the audit report and be performed on an annual basis.	Mazars	Minority comment
249.	Pre-issuance review necessary	We believe that the pre-issuance review is the only appropriate safeguard. Therefore, we are not supportive of "a post issuance review" as a satisfactory safeguard in this context.	ICAS	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
250.	Pre-issuance review necessary	FAR SRS recommends a pre-issuance review. FAR SRS thinks that a post issuance review is impractical and if it should be recommended as a safeguard FAR. SRS is of the opinion that it could be improved by the addition of further guidelines on how to deal with e.g. adverse findings.	FAR	Minority comment
251.	Post-issuance review should be on a timely basis	Furthermore, there are concerns that the safeguards proposed are only to be applied to the **following** year's audit. This potentially allows for a 12-month period for the self-interest threat to evidence itself. Given that in lines 4 and 5 it is stated, "…*the self-interest threat would be too significant*…" It is suggested that there needs to be an immediate review of the audit by a professional accountant who is not a member of the firm. The self-interest threat is too significant to go unaddressed for such a long period of time.	SAICA	Change made to state that post-issuance review should be conducted before the next audit opinion is issued.
252.		The pre / post reviews do not seem practical; not only as to their general workability, but also in relation to restricting responsibilities and specific roles.	ICAP	Minority comment
253.		**Alternative Safeguards**		
254.	General	In view of the Institute's answer to the above question, this question is not relevant.	MIA	General comment
255.	General	We believe either of the two safeguards provided in paragraph 290.15 are appropriate and as noted, provide sufficient flexibility for firms to employ one or the other. It is important, in our view, for the review to be performed by someone who is not a member of the firm expressing the opinion on the financial statements.	DTT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
256.	General	Regarding the two proposed alternative safeguards, we support as a third alternative an inspection by an independent quality assurance system under the responsibility of a public oversight system of an audit firm auditing public interest entities every three years, as this is for instance stipulated in Articles 29, 32 and 43 of the Statutory Audit Directive.	WpK	Change made – review could be performed by a professional regulatory body
257.	General	While supportive of pre and post issuance reviews, we also recognise that the external quality reviews imposed by regulators will satisfy this requirement.	Australia	Change made – review could be performed by a professional regulatory body
258.	General	A similar purpose in relation to the overall audit practice of the auditor is already being achieved in cases where the auditor is subjected to quality reviews of relevant professional bodies etc.	ICAP	Change made – review could be performed by a professional regulatory body
259.	General	Additionally, if IESBA were to make reference to a fixed amount or absolute limit in relation to the determination of the appropriate relative size of fees to be received from an entity of significant public interest, an additional safeguard should be added as a valid alternative for the two safeguards already included in the ED: 'inspection by an independent quality assurance system under the responsibility of an public oversight system of an audit firm auditing public interest entities every three years'. Following implementation of Articles 29, 32 and 43 of the Statutory Audit Directive in all 27 European Union Member States, such system would be in place in Europe. This is especially important for smaller audit firms which could in such way avoid to involve a professional accountant who is not a member of the firm expressing the opinion as such involvement is invariably seen as commercially sensitive.	FEE	Change made – review could be performed by a professional regulatory body

X ref	Par Ref	Comment	Respondent	Proposed Resolution
260.	General	We also understand that the joint statutory audit as it is currently in place in our country, which involves two audit teams being independent from each other, who confront their opinions on significant technical issues while performing a double-sided examination, would at least constitute an alternative and even more appropriate safeguard to reduce the threat of economical dependence. And we would be pleased if this could be stated either in the Code or by means of an interpretation.	CNCC OEC	Minority comment
261.	General	An alternative safeguard that could potentially address the threat to independence is listed below: • In a multi-partner firm, involve a senior partner of the firm to carry out pre-issuance review of the relevant engagement. For example some firms have an engagement quality control procedure whereby a senior partner/s perform high level reviews of audit engagements which are classified as "higher than normal risk" due to the industry the client is operating in or due to going concern risk. This is traditionally done as a pre-issuance review in accordance with relevant firms' quality control procedures.	APESB	Minority comment
262.	213	The Committee shares the concern of the IESBA that when the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing that client may create a self-interest threat. The IESBA should consider enhancing the definition of the operating structure of the firm in paragraph 290.213 to specify that a self-interest threat could also arise at various levels within the firm, for example at the engagement partner, solo office, or regional/national office level.	Basel	Paragraph 290.214 addresses situation where fees are significant to an individual partner
263.	213	Section 290.213 This proposed section discusses relative size of fees from a client as a threat to independence and the required safeguards. It is important to recognize that regulatory bodies, such as a state board of public accountancy, SEC or PCAOB, do not routinely provide guidance on key audit judgments.	NASBA	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
264.	214	The Committee believes that the remedies proposed in paragraph 290.214 are not sufficiently robust and should be significantly strengthened. We believe that the Code should make it impossible for a firm, an office or group of offices of a firm, or a partner to become dependent on one large client. To strengthen this paragraph, IESBA could delete the terms "considered and" and "when necessary" in the second sentence, and delete the word "might" in the last sentence. IESBA should also include more specific examples of safeguards, as the ones provided are fairly general. Thus, the revised paragraph, before the inclusion of more specific examples, would be: "A self-interest threat may also be created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be applied to eliminate the threat or reduce it to an acceptable level. Such safeguards include having an additional professional accountant review the work or otherwise advise as necessary." In response to the request for specific comments, the Committee noted that IESBA has not supported its view that 15% is an appropriate threshold by arguments in the Explanatory Memorandum. We encourage the IESBA to publish a basis for conclusions that explains its reasoning in arriving at a threshold of 15%, including how the IESBA took into account the effectiveness of this percentage and its impact on firms. Because this 15% threshold is applied only at the firm level, we recommend that IESBA apply a significance level for fees from an audit client at the office and group of offices levels and at the partner level.	Basel	Minority comment – if the entity were listed an engagement quality control review would be required under GAAS

X ref	Par Ref	Comment	Respondent	Proposed Resolution
265.	214	Paragraph 290.214 deals with the situation where the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients. This is broadly as included in the current Code. This is not an uncommon situation, particularly in large firms with major multinational clients. We believe that it would be helpful to indicate those factors that might reasonably be taken into account in evaluating the threat to independence. These would include: • The operating structure of the firm and oversight of the partner's activities • The seniority and experience of the partner • The firm's methods of performance evaluation • Firm and engagement quality control procedures	PwC	Minority comment
266.	214	Also, we understand that the additional professional accountant review indicated in Paragraph 290.214 would be the engagement quality control review as described above; if so, it should be so stated	JICPA	Minority comment
267.	214	I suggest firm instead of individual partner.	RM	Minority comment – significance to firm is addresses in 290.213
268.	214	Suggest updating the safeguard recommendations for consistency with those notations in 290.191 (above).	IIA	Minority comment
269.	214	At paragraph 290.214, consideration should be given to the practicality that a self-interest threat may be created when fees generated from an audit client represent a large proportion of the revenue from an **individual partner's clients**. It should perhaps be seen in the light of the business line that partner operates within, or as is stated within paragraph 290.213 when compared with the total revenue for the firm as a whole.	SAICA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
270.	215	As paragraph 290.215 refers to an audit client, we suggest IESBA furthermore to clarify whether voluntary engagements (e.g., interim reporting or engagements to review financial statements) are intended to be covered as well.	WpK	No change – 290.214 refers to total fees
271.	215	Paragraph 290.215 refers to audit clients that are 'entities of significant public interest'. However, this concept remains undefined. The DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2006 on statutory audits of annual accounts and consolidated accounts contains the definition 'public-interest entities' which means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions (1) and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees. NIVRA advocates following the above mentioned definition of 'public-interest entities' from EU legislation when 'entities of significant public interest' are mentioned. This will prevent discussions on the meaning of the term 'entities of significant public interest'.	NIVRA	Definition of public interest entities dealt with under Independence I project

X ref	Par Ref	Comment	Respondent	Proposed Resolution
272.	215	In the situation mentioned in paragraph 290.215 the following conditions apply: -Disclose to those charged with governance the fact that the total fees represents more than 15% of the total fees received by the firm; and -After the audit opinion has been issued a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs a review that is equivalent to an engagement quality control review ("a post-issuance review"); or -Prior to the issuance of the audit opinion a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review. Considering the remark stated above under Chapter Fees, sub 1., the definition 'firm' includes the complete network. In case of an internationally operating audit client who is served by one of the big worldwide firms, it is not clear to NIVRA when this review should be done and by whom. The latter two conditions mentioned above, state a 'review' that should be done by 'a professional accountant , who is not a member of the firm expressing the opinion on the financial statements of the client'. If a conflict arises between this accountant and the one who as an affiliate of the firm is responsible for the assignment, there is no certainty about the position and the 'power' of the 'professional accountant who is not a member of the firm'. NIVRA calls for clarity on this issue. Additionally NIVRA regards the choice a firm has to make between those latter two conditions, a review before or after providing an opinion, as illogical. The two options are not balanced and will not lead to the same results. There is a chance that in practice the firm is inclined to choose the second option while this provides the least security. NIVRA proposes to delete the aspect of choice and prefers the first option.	NIVRA	Guidance changed to address how materiality of fees is to be calculated No change – review can be performed by a professional accountant who is not a member of the firm expressing the opinion Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
273.	215	We are generally supportive of the proposal to strengthen the requirements related to relative size of fees for entities of significant public interest. However, it is unclear how the safeguards should be applied after it is determined that the fees from the audit client exceed 15% of the total fees received by the firm. The ED provides that "at a minimum, a post-issuance review should be performed not less than once every three years commencing with year 3." For example, assume that in years 1 and 2, the fees from client X represented 18% of the firm's total fees and in year 3, the fees represented 12% of the firm's total fees. Assume further that the firm applied the pre-issuance review safeguard in years 1 and 2. The ED provides that consideration after years 1 and 2 should be given to the relative size of the fees from that client thereafter. However, the ED goes on to state that "at a minimum, a post-issuance review should be performed not less than once every three years commencing with year 3." As drafted, it would seem that irrespective of the relative size of fees of client X after years 1 and 2, a post-issuance review every 3 years is required beginning in year 3 ad infinitum. Thus, not only is there no point at which the requirement to conduct a post-issuance review ends, it seems unrelated to the relative size of fees on an ongoing basis of the client for which the review was required.	DTT	Guidance changed to require the pre or post-issuance review on the second year's opinion
274.	215	We would also suggest that the reference in paragraph 290.215 to "total fees" need not be restricted to total fees "received". It would seem practical and acceptable for firms to be able to use total fees received or billed, as long as they are consistent in application. Conceptually, the threat to independence should be the same, and each amount should be readily verifiable.	CICA	Minority comment
275.	215	Moreover, we are of the opinion that a quality control system supervised by an oversight fulfils the requirements set in the last part of paragraph 290.215. For greater clarity we suggest that this point is made clear by adding a bullet point or by means of an interpretation.	CNCC OEC	Change made – review could be performed by a professional regulatory body

X ref	Par Ref	Comment	Respondent	Proposed Resolution
276.	215	Concerning the first safeguard proposed in paragraph 290-215 (post-issuance review) it would be helpful to describe the structure and content of the post-review assurance and the way it will have to be issued.	CNCC OEC	No change – review would be equivalent to an engagement quality control review
277.	215	Since "post-issuance review" is defined in Paragraph 290.215 as a review that is equivalent to an engagement quality control review to be performed by a professional account, who is not a member of the firm expressing the opinion on the financial statements of the client, after the audit opinion has been issued, we understand that "post-issuance review" is same as an engagement quality control review explained in Paragraph 5 (b) of International Standards on Auditing 220. In this connection, we also understand that "External quality control review" indicated in Paragraph 290.213 would be same as "post-issuance review"; if so, it should be so stated.	JICPA	Minority comment
278.	215	Also, although the Code seems to provide a very detailed and prescriptive methodology in Paragraph 290.215, the provisions are confusing and could lead to inconsistencies, further increasing the risk of focusing more on the metrics and rule implementation rather than on the real independence threat. For instance, the method of calculation does not indicate whose fiscal year should be considered in the calculation (client's year or firm's year?). Once the calculation is completed, it is not clear how the resulting percentage would direct one to use one safeguard rather than the other and how to decide on its frequency. We are also questioning the effectiveness of the first recommended safeguard ("post-issuance review" by another firm). We believe that this safeguard should be enhanced by the provision of guidance on how to deal with adverse findings, if any. We also believe that the intention of the IESBA was to require safeguards only to the extent that the client continues to represent more than 15% of total fees. The language in the last sentence could be misinterpreted that once the 15% threshold has been reached for two consecutive years, the safeguard needs to be implemented on an on-going basis.	E&Y	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
279.	215	To help ensure those with governance responsibility have sufficient information, suggest disclosure when total fees are more than 10% and that an engagement quality control review be performed annually prior to the issuance of the audit opinion	IIA	Minority comment
280.	215	Paragraph 290.215 refers to a percentage of the total fees received "by the firm expressing the opinion on the financial statements of the client". This is a term used often in the December 2006 ED and we understand that further guidance may be given as to its meaning, particularly in the context of consolidated accounts. In this context, we understand that the intent is to exclude fees of the network, which we believe is appropriate. However, we question whether it is an appropriate test for situations where "a firm" (which may itself be part of a network) comprises a number of separate legal entities but which are under common management and have shared economic interest. If such entities work and are governed in a way that is in essence equivalent to "one firm", then the separate legal distinction, which in some countries is required by law, does not have substance from an independence point of view. In those cases, we believe that the 15% threshold could be too low if considered in respect of a specific legal entity that makes up part of a firm. We recommend that the Board clarify the requirement so that the 15% threshold test in that situation is applied to the group of separate legal entities that make up the firm.	PwC	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
281.	215	Section 290.215This proposed section specifies 15 percent of total fees received by the firm from an audit client for two years as too significant unless the firm discloses it to the entity of significant public interest's governing board. Distinguishing "entities of significant public interest" is a relatively new concept, emphasizing the public trust theory and the importance of the fiduciary responsibility of these entities to safeguard the public interest in carrying out their activities and objectives. It is preferable not to suggest a specific percentage and leave it to the judgment of the independent accountant. Many subjective factors enter the determination of such a designation, making it confusing and difficult to apply. Again, independence should be guarded within the firm, and disclosure of its existing significant fees from an audit client will not eliminate a threat to the firm's independence. Disclosure of such a condition to the client's governance is an appropriate action, but does not correct the situation. Nor will a post-issuance review cure a possible lack of independence, since other stakeholders will not be aware of the existence of such condition. It can be argued further that such disclosure to the client's governance may lead to a undue influence by the client on the firm, thus increasing the possibility of threat to a firm's independence. A post-issuance review every three years may be a prescription for failure. A post-issuance review should be done immediately if the firm discovers a threat to its independence that was disregarded prior to issuance.	NASBA	Alternative view on fixed percentage Guidance changed to require a pre or post issuance review on the second year

X ref	Par Ref	Comment	Respondent	Proposed Resolution
282.	215	Both of the safeguards mentioned in paragraph 290.215 refer to an "engagement quality control review". It is not clear whether the 'external quality control review' mentioned in paragraph 290.213 is intended to be the same as that envisaged in 290.215. Assuming it is, we suggest that the wording and intent be clarified within this section (and other sections as appropriate). Likewise, we are not clear if there is an intended difference between "a review that is equivalent to an engagement quality control review" and "an engagement quality control review" as mentioned in the two bullets of the latter paragraph. Clarification is needed.	PwC	Minority comment
283.	215	We would like to confirm that our understanding of the proposed guidance is correct and reference to "firm" in paragraphs 290.213 – 290.215 relates only to the firm taking responsibility for the audit engagement and not "network firm" as defined in the *Code of Ethics for Professional Accountants*	GTI	Minority comment
284.	Calendar year or fiscal year	If the 15% threshold is accepted, then to add practicality as to what to measure the 15% against, it is suggested that this should be 15% of the firm's prior year revenues. In other words, should the fees in the current year breach 15% of the firm's last year's revenues then a self-interest threat is immediately evident and an independent review should be performed against the current year's audit.	SAICA	Minority comment
285.	Calendar year or fiscal year	As well, we believe that there should be a requirement for consistent application of the term "year" (as in "two consecutive years") where "calendar year" or "fiscal year of the firm" might each be acceptable.	CICA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
286.	Transition for newly formed firms	Further in order to mitigate barriers to entry into the profession imposed by this mandatory safeguard, we recommend consideration of a transition period of three years for newly formed accounting firms. This would allow these firms to promote and retain appropriate competition on the market for audit services to entities of significant public interest. Further we support the IESBA view that it is not appropriate in a global code to specify a threshold of relative size which, if exceeded, would indicate that the threat created was so significant no safeguard could adequately address the threat and therefore the firm should either not act as auditor for the client or take steps to reduce the relative size of the fee below the threshold.	Australia	Minority comment
287.	Transition for newly formed firms	Many of these nations are not currently subject to a regulator or standard setter required external quality control review. We recommend considering a transition period of three years for newly formed accounting firms, existing smaller accounting firms, and accounting firms in developing nations. This would allow these firms to promote and retain appropriate competition in the market for audit services to entities of significant public interest.	GTI	Minority comment
288.		**Fees Overdue**		
289.	General	We are supportive of the proposed changes.	ACCA	Supportive comment
290.	General	The ICJCE supports the substance of this section.	ICJCE	Supportive comment
291.		We would like to confirm our interpretation that in respect to the performance of an interim review of an entity of significant public interest, the self interest threats identified in respect of overdue fees are in the context of the audited financial statements, and do not impact on the independence of the firm for the interim review.	Australia	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
292.		The ICJCE considers that fees overdue may suppose a threat to independence and agrees with the threats and safeguard approach defined in paragraph 290.216.	ICJCE	Supportive comment
293.		We believe that the self-interest threats resulting from overdue fees are as significant if not greater than those described in proposed section 290.213, Fees – Relative Size. The self-interest threat that arises from overdue fees is one that impacts at the firm level, suggesting that the proposed safeguard of having an additional professional accountant from the same firm, who did not take part in the audit engagement, is an inappropriate safeguard. Various regulators and standard setters have viewed fees outstanding for over a year as an independence impairment. We would recommend that the IESBA consider strengthening the proposed guidance to state that when the audit report is to be issued and material fees or a note receivable arising from any service provided remain unpaid for more than one year prior to the date of the proposed audit report, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. As a result, the audit firm should either delay issuing its opinion until the debts have been cleared or withdraw from the audit engagement. With respect to the performance of an interim review for an entity of significant public interest, the self-interest threats described above are in the context of the audited financial statements and do not impact the independence of the interim review.	GTI	Minority comment
294.		If we have properly understood the questions raised by the IESBA in respect of overdue fees, we believe it is necessary for exceptions to be provided for in the case of entities in financial difficulty involving their administration under the supervision of a court or other public body, since such circumstances may justify rescheduling fee payments without as such implying any loss of independence.	Mazars	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
295.	216	We understand the logic which is used in paragraph 290.216 in relation with self interest and intimidation. But we would like to draw the attention of IESBA that fees overdue might also result from a client's financial difficulties. In such a case, having an additional professional accountant review the work performed is not an appropriate solution because the threat is not an intimidation. Therefore, we suggest that a clarification should be brought as regards as the threat aimed for, so that there won't be any confusion. For a better comprehension, the situation where the client has financial difficulties should be clearly set aside.	CNCC OEC	Minority comment
296.	216	In paragraph 290.216 the IESBA states that a self-interest threat may be created if fees due from an audit client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. However, the nature of the self-interest threat is not made clear. We believe, however, that the IESBA means that an auditor's objectivity in forming an audit opinion may be impaired by the auditor's interest in receiving outstanding fees. The last sentence of this paragraph refers to the significance of the overdue fees without stating whether significance should be viewed from the perspective of the firm or, alternatively, the perspective of the client or possibly of both. We would like to point out that when such fees are insignificant to the firm but significant to the client, this would be likely to strengthen the firm's position and thus reduce the significance of any self- interest threat. To preclude the treatment of this issue from being one-sided, we suggest this also be discussed in this paragraph	IDW	Minority comment
297.	216	Section 290.216 To minimize any threat to independence, the auditor should not start the field work if overdue fees of prior a year's audit (year 1) remain unpaid. The auditor should not be doing field work under a threat of lack of independence. Waiting until issuing the audit report of year 2 may mean that two years' fees remain outstanding and raises the possibility that a threat existed even before issuing the audit report for year 1	NASBA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
298.	216	In section 290.216 the ED states that a self-interest threat may be created by overdue fees. We suggest: • The nature of the self interest threat be explained. • Guidance be provided to clarify whether the significance (as in the last sentence) should be viewed from the perspective of the audit firm or, alternatively, the perspective of the client or possibly of both. In particular, to balance the treatment of overdue fees in the ED, we suggest the IESBA include text explaining that when such fees are insignificant to the firm but significant to the client, this would be likely to strengthen the firm's position and thus reduce the significance of any self-interest threat.	FEE	Minority comment
299.		**Contingent Fees**		
300.	General	We support the approach taken by IESBA to contingent fees, both in relation to audit and assurance engagements and in relation to non-assurance services provided to audit and assurance clients.	APB	Supportive comment
301.	General	We support the Board's proposals in this area.	ICAS	Supportive comment
302.	General	Although we agree that the guidance on contingent fees needs to be strengthened, we have some specific comments.	DTT	Supportive comment
303.	General	The guidance in the current IFAC Code of Ethics seems appropriate. However, we do not object to the substance of the proposed revision to this part of Section 290 as the requirements are similar	FEE	Supportive comment
304.	General	We support the strengthening of the provisions on contingent fees. We also have the following comments.	E&Y	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
305.	General	We support the proposals in respect of contingent fees. We recommend that consideration be given to including a provision that the audit committee or other relevant governance structure should evaluate possible threats to independence in respect of contingent fees, as an additional safeguard.	IRBA	No change – discussion with those charged with governance is not used as a safeguard in Section 290
306.	General	Paragraph 290.219 – we agree with the view set out therein.	SAICA	Supportive comment
307.		APESB is supportive of the IESBA's proposal that a firm should not perform a non-assurance service for an audit client if either the fee is material or expected to be material, to the firm or the fee is dependent upon the outcome of a future or contemporary judgement related to the audit. In Australia, APESB issued an exposure draft on Contingent Fees which had a similar provision dealing with the materiality of the contingent fee to the firm or that part of the firm by reference to which the lead engagement partner's remuneration is calculated as reproduced below; *A Member in Public Practice shall not undertake a Non-assurance Service for an Assurance Client on a Contingent Fee basis where the Contingent Fee is likely to be material to the Firm or that part of the Firm by reference to which the Lead Engagement Partner's remuneration is calculated, unless appropriate safeguards are implemented as this creates an unacceptable self interest threat.* *In all cases where the Contingent Fee for a Non-assurance Service for an Assurance Client is likely to exceed 10% of the Firm's total fees or 15% of the total fees for that part of the Firm by reference to which the Lead Engagement Partner's remuneration is calculated, it will be considered to be material.* In APESB's ED the Firm's fees as well as the lead engagement partner's remuneration was considered. IESBA may want to consider whether it is appropriate to include the impact of the fees on the lead engagement partner's remuneration.	APESB	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
308.		We are supportive of the revisions to Para's 290.217 - 290.220, but request that consideration be given to a restatement of Para 290.219 to appropriately address the following situation. In the sale of a business for which an advising firm may receive a success fee, the availability of the audited financial statements may be a compliance measure with no bearing on the price or success of the transaction. However in this proposed wording the firm would be prohibited from acting as adviser and auditor at the same time. Distinguishing where the contingent fee will not be dependent on the outcome of a future or contemporary judgment, but rather the transaction or service for which the firm has been engaged on a contingent fee basis will depend on the outcome. Further the addition of guidance to Para 290.219 would be useful to provide clarity where a non-assurance service may impact on the outcome of a future audit judgment. Our comments on contingent fees are also applicable to Section 291, Independence - Assurance Engagements.	Australia	Minority comment
309.				
310.	Contingent fees not an independence issue	We support the proposal that a contingent fee charged by a firm in respect of an audit engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguards. Accordingly, we support that a firm should not entered into any such fee arrangements. However we do not consider that this is an independence issue and recommend it to be included in section 240 *Fees and Other Types of Remuneration* rather than in sections 290/291 on independence.	HKICPA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
311.	No contingent fees	We believe that contingent fees are not aligned with the level of professionalism that should be advocated and can create an actual or perceived violation of independence and objectivity. Suggest that all types of contingent fee arrangements should not be accepted.	IIA	Minority comment
312.	No contingent fees	We are of the view that for audit clients no fees whether received on other assurance or non-assurance engagement should ever be contingent, since they would lead the statutory auditor to enter into a position of having to negotiate its fees with the client based on the result of its work. If the possibility of contingent fees had to be maintained for audit client, we are of the opinion that the only acceptable safeguard would be the determination of the final fee by an unrelated third party or a court or an other public authority.	CNCC OEC	Minority comment
313.	No contingent fees	We are opposed to any form of contingent fees for services provided to audit clients, since as a matter of principle it is not the place of a statutory auditor to negotiate fees on the basis of particular results or of events unrelated to his or her engagement.	Mazars	Minority comment
314.	No contingent fees	In our view, the proposed revisions to section 290 on contingent fees are not appropriate. In our opinion, the setting of contingent or success fees in respect of any service provided by a firm to an assurance client creates a 'self interest' threat to independence that can not be reduced to an acceptable level by the application of any safeguards. Therefore, we recommend paragraphs 290.219 and 290.220 should be deleted from the Code of Ethics and paragraph 290.218 be replaced with the following: *A contingent fee charged by a firm in respect of any audit engagement or any service provided to an assurance client creates self interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.*	AGNZ	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
315.	No contingent fees from third parties	This section should also include a prohibition of contingent fee arrangements between a firm and third parties where an outcome is dependent on the audited financial statements of the firms' audit client.	GTI	Minority comment
316.	General	We would also suggest that the guidance in paragraph 290.219 not be limited to the material effect of the contingent fee on the audit engagement. We believe that the results of the contingent fee engagement might also bear upon the audit engagement in a material way, and therefore require similar guidance in that paragraph.	CICA	Minority comment
317.	Contingent fees from network forms	We welcome the Board's effort to clarify actions to be taken by audit firms, when any fees for non-audit services provided to audit clients are contingent. However, we are not clear why the Code does not address the situation where the contingent fees for providing services are discussed with reference to the network firm. We are aware of the possibility that this situation may give rise to the self-interest threat. Therefore, we encourage the Board to deliberate further on this matter. We also think the Code should make a clear and unequivocal statement that the auditor should decline a contingent fee structure or resign from the audit if the threat to independence cannot be effectively mitigated.	IOSCO	Change made to address a contingent fee charged by a network firm for a non assurance service
318.	217	In paragraph 290.217, the Code, fees are not regarded as being contingent if a court or other public authority has established them or is required to approve them. It would be useful to clarify whether "them" refers to the fee itself or an amount that could be used to determine the fee. We believe that when the amount is determined by the results of judicial proceedings or findings of governmental agencies, the fee should not be regarded as contingent	E&Y	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
319.	217	Paragraph 290.217 defines contingent fees as fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. Not all contingent fees are calculated, for example, the fee may be expressed in terms of a set amount if a transaction is successful and a lower set amount if not successful. We therefore suggest that the definition should re-worded as follows: "…a fee whose amount is agreed as part of the engagement terms, or that is to be calculated on a predetermined basis, where the fee is related to the outcome or result of a transaction or the result of the work performed."	GTI	Minority comment
320.	219	The currently existing guidance seems appropriate, although we do not object to the substance of the proposed revision to this part of Section 290 as we assume the requirements in 290.219b are intended to be read as being substantially similar. It is not clear to us however, why the additional prohibition in respect of fee materiality (290.219a) is necessary: if the fee is unrelated to the audit engagement why should there be a specific concern given the overall safeguards elsewhere on fee dependency?	ICAEW	Minority comment
321.	219	Also, the Code should clarify Paragraph 290.219. In particular, when referring to the "amount of the fee [...] dependent upon the outcome of a future or contemporary judgment related to the audit of a material amount in the financial statements". Usually, contingent fees are triggered by the success or the closing of a transaction, and calculated in reference to the size of the transaction. It would be useful for the IESBA to clarify what is exactly meant by "the outcome of a future or contemporary judgment" by providing examples of situations that would not be appropriate. In addition, when referring to a "future or contemporary judgment", it should be clearer that this is referring to the judgment of the auditor, not of the client or any external body, such as a tax authority.	E&Y	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
322.	219	Paragraph 290.219 refers to the materiality of the fee "to the firm". Our comments above regarding the reference to the "firm" in paragraph 290.215 are equally applicable.	PwC	Change made to address a contingent fee charged by a network firm for a non assurance service
323.	219	Under the proposed revisions to Sections 290 and 291, a firm should not perform a non-assurance service for an audit client if either the fee is material, or expected to be material to the firm or the fee is dependent upon the outcome of a future or contemporary judgment related to the audit of a material amount in the financial statements. Some members of the Committee are of the view that the materiality concept should be more clearly defined as a percentage of fees. Other members have the opposite view that in a global code, this should be left to the professional judgement of professional accountants.	ICPAC	Mixed comment
324.	219	Paragraph 290.219 provides that no safeguards can reduce the threat to an acceptable level if the fee is "dependent upon the outcome of a future or contemporary judgment related to the audit of a material amount in the financial statements." Read literally, it is difficult to imagine the situation where a firm enters into a fee arrangement to provide a non-assurance service on a contingent fee basis and the amount of the fee is based on audit judgments. We assume that the IESBA intended to prohibit contingent fees where the results of the services are dependent upon the outcome of audit judgments. Thus, we suggest redrafting this paragraph as follows: 290.219 A contingent fee charged by a firm in respect of a non-assurance service provided to an audit client may also create self-interest and advocacy threats. No safeguards can reduce the threats to an acceptable level if either: (a) the amount of the fee is material or expected to be material to the firm expressing the opinion on the financial statements; or (b) the outcome of the non-assurance service is dependent upon a future or contemporary judgment related to the audit of a material amount in the financial statements. Accordingly, such arrangements should not be accepted.	DTT	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
325.		If there is to be revised guidance, there is one matter where we believe that the wording of this part of Section 220 could easily be clarified. 290.220 refers to 'other types of contingent fee arrangements'. It is not completely clear whether this refers to arrangements which do not fall within the scope of 290.219 or arrangements which do not fall within the definition of contingent fees. As regards the proposals for Section 291 on other assurance services, these actually seem to be stricter than those in Section 290 for audit work, which is not logical. 291.153 refers to whether the amount is dependent on the 'result' of the assurance engagement. First, this requirement does not have a materiality exclusion, unlike 290.219b. In addition, 'result' could be interpreted much more widely (for example 'the transaction cannot be completed and paid for until the report is signed off'') than the equivalent requirement in 290.219b, where we note that the opportunity has been taken to change this term. We recommend that the requirements in this area for Section 291 be brought into line with those in 290.219.	ICAEW	Change made
326.	220	We also suggest an editorial change to paragraphs 290.220 and 291.154 which refer to "other types of contingent fee arrangements." The reference to "types of" should be deleted as the paragraph is covering other contingent fee arrangements not covered by paragraphs 290.218 – 219, rather than distinguishing between different types of contingent fees. In our view, the safeguard of having an unrelated third party review or determine the final fee does nothing to reduce the threat to independence. This could be read to suggest that the third party do nothing more than review or recalculate the contingent fee due the firm. It is not clear how this is an effective safeguard and as a result, we suggest it be deleted.	DTT	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
327.	220	Paragraph 290.220 refers to "other types of contingent fee arrangements", which we take to mean fee arrangements that do not fall within the prohibition set out in paragraph 290.219. Given that the threat is to the independence of the audit of financial statements, rather than to the quality and outcome of the non-assurance service, we would expect the possible safeguards to be those that would be applied to the quality of the audit, rather than to the non-audit service.	GTI	Change made
328.	220	Paragraph 290.220 provides examples of safeguards that can be applied to eliminate the threats or reduce them to an acceptable level when a contingent fee arrangement is entered into with an audit client for a non-assurance service. We recommend that the example, “Review or determination of the final fee by an unrelated third party” be expanded to require that the third party be someone who is capable of making an informed judgment about the transaction. Accordingly, the example would read as follows: Review or determination of the final fee by an unrelated third party who is capable of making an informed judgment about the transaction.	AICPA	Change made – to refer to appropriate authority
329.	Definition	We note that the definition of contingent fee in paragraph 290.217 of the ED excludes those fees that are required to be approved by a court or other public authority. This is a very significant liberalization from the current Code and the explanatory memorandum contains no amplification. Because these fees are not deemed to be contingent fees, a contingent fee for an audit would be permissible provided a court or other public authority was required to approve the fee. We question whether the IESBA intended this result. More importantly, we do not believe that a contingent fee should be deemed not to be one merely because it is required to be approved. The approval of the fee is likely in most instances to occur after the engagement has been completed. The threats to independence occur at the time of entering into the engagement and during its performance, not after-the-fact when the fees are approved. Such fees should be subject to the requirements of paragraphs 290.218 – 290.220, not carved out of the definition.	DTT	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
330.	Definition	The definition of a contingent fee might be clearer by the addition of language at the end of the first sentence, such that "Contingent fees are calculated on a predetermined basis relating to the outcome or result of a transaction or the outcome or result of services performed by the firm".	PwC	Change made
331.	Definition	The definition of contingent fees in Sections 290.217 and 291.151has not been replaced with the following definition as proposed in the exposure draft under 'Definitions'as follows: 'A contingent fee is a fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established or required to be approved by a court or other public authority is not a contingent fee.'	ICPAC	Change made
332.		**Contingent fees – tax**		
333.		We also believe that the Code should provide a specific provision for contingent fees related to tax services, when the tax treatment of the item in question results from the strict and clear-cut application of the tax law and is not influenced or affected by a particular accounting treatment. In these situations, we believe that the self-interest threat or advocacy threat would be clearly insignificant.	E&Y	Minority comment
334.		FAR SRS is of the opinion that the code should provide specific rules for contingent fees relating to tax services. FAR SRS is of the opinion that the self-review threat or advocacy threat is clearly insignificant when the tax treatment results from a strict application of tax law and is not influenced by a particular accounting treatment	FAR	Minority comment
335.		**Section 291**		
336.	291	The standards regarding other assurance services appear to be appropriate.	CPAA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
337.	291	We are broadly supportive of the proposed changes to section 290. However, the proposed changes to section 291 appear to impose stricter requirements than those in relation to section 290. Paragraph 291.153 refers to whether the amount is dependent on the 'result' of the assurance engagement. However, this requirement does not appear to allow for any exception based on materiality, unlike paragraph 290.219(b). This is because the word 'result' could be interpreted much more widely - for example if an event is dependent on the mere fact that the report is 'signed off' - than the equivalent requirement in paragraph 290.219(b), where the term 'result' is no longer used. We would suggest, therefore, that the requirements concerning contingent fees be consistently applied across both section 290 and section 291.	ACCA	Change made
338.	291	We consider the guidance as set out in the current IFAC Code of Ethics as appropriate and we do not object to the proposed rewording of this part of Section 290 as the requirements are similar. There appears to be a discrepancy between the proposals for Section 291 on other assurance services and those in Section 290 for audit work where the requirements for other assurance services appear to be stricter. Paragraph 291.153 refers to whether the amount is dependent on the "result" of the assurance engagement. However, this requirement does not appear to allow for any exception based on the materiality concept unlike paragraph 290.219b. We recommend that the requirements concerning contingent fees in Section 291 be brought into line with Section 290.219.	CARB	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
339.	291	Contingent fees are considered in Sections 290 and 291 where paragraphs 290.217 and 290.218 appear to be parallel in their applications to paragraphs 291.151 and 291.152. We noted, however, that paragraphs 290.219 and 291.153 are not similarly parallel. These two paragraphs begin with essentially the same sentence, but then differ in application. Paragraph 290.219 goes on to provide guidance in situations where the contingent fee for a non-assurance service bears upon the audit engagement. Paragraph 291.153, on the other hand, provides guidance where the assurance engagement bears upon the non-assurance, contingent fee engagement, effectively the reverse of paragraph 290.219. We are not sure if this was intended.	CICA	Change made
340.	291	Section 291.153 appears to be stronger than Section 290.219 as there is no mention of materiality of assurance work undertaken in 291.153. We believe that the two sections should be brought into line with each other, and that there should not be a stricter requirement in Section 291 than in 290 on the same issue.	CIMA	Change made
341.	291	The language in 291.153 is not consistent with paragraph 290.219 and we are unclear as to whether this is intentional. There is no reference to "materiality" and the text uses the language of the existing Code as in "dependent on the result of the assurance engagement". We believe that either the language needs to be conformed, or, if the intent is different, then this needs to the better explained.	PwC	Change made
342.	291	We consider that it is not intentional that regulation of the same issue referred for other assurance services is more rigorous that for audit services. Therefore, we are of the opinion that a revision of paragraph 291.153 should be carried out in order to be consistent with paragraph 290.219	ICJCE	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
343.	291	We note the lack of consistency between the provisions of paragraph 290.219 and paragraph 291.153. In the case of an audit client, contingent fees are permitted for non-assurance services unless the fees are material or (as rewritten above) the outcome of the service is dependent upon audit judgments related to material amounts in the financial statements. However, paragraph 291.153 prohibits any contingent fee with respect to non-assurance services if the outcome of the non-assurance service is dependent on the result of the assurance engagement. Although this may be appropriate given the possible range of subject matter information in the case of non-audit assurance engagements, we suggest consideration be given to introducing a materiality concept into this prohibition, similar to paragraph 290.219. Moreover, we suggest the second sentence of paragraph 291.153 be redrafted, similar to the suggestion above.	DTT	Change made
344.	291	As far as the proposals for Section 291 on other assurance services are concerned, they seem to be stricter than those in Section 290 for audit work, which does not appear to be logical. Paragraph 291.153 refers to whether the amount is dependent on the 'result' of the assurance engagement. However, this requirement does not appear to allow for any exception based on the materiality concept, unlike paragraph 290.219b. Furthermore, 'result' could be interpreted much more widely (for example if something is dependent on the mere fact that the report is signed off') than the equivalent requirement in paragraph 290.219b, where the term 'result' is no longer used. We recommend that the requirements regarding contingent fees in Section 291 be brought in line with those in paragraph 290.219	FEE	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
345.	291.154	We also suggest an editorial change to paragraphs 290.220 and 291.154 which refer to "other types of contingent fee arrangements." The reference to "types of" should be deleted as the paragraph is covering other contingent fee arrangements not covered by paragraphs 290.218 – 219, rather than distinguishing between different types of contingent fees. In our view, the safeguard of having an unrelated third party review or determine the final fee does nothing to reduce the threat to independence. This could be read to suggest that the third party do nothing more than review or recalculate the contingent fee due the firm. It is not clear how this is an effective safeguard and as a result, we suggest it be deleted.	DTT	Change made
346.		**Other**		
347.		Para 290.219 refers to the fee being "material" to the firm and "material" amount in the financial statements. It would be helpful to have a definition of "material" included in this case.	IRBAA	Minority comment
348.	Contingent fees for compilations	In many jurisdictions professional accountants will prepare a client's annual financial statements without performing an audit or review thereof. These engagements (known as compilation engagements in Canada) are not assurance engagements and, accordingly, the professional accountant is not required to be independent of the particular client. (The professional accountant in Canada must, however, formally disclose the lack of independence if that is the case.) While it may not be a matter for section 290 or 291, we believe that the credibility of the profession would be enhanced if the Code were to prohibit contingent fees for compilation engagements, as is the case in Canada.	CICA	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
349.		We would like to take this opportunity to reiterate our views previously given in our submission dated 2 May 2007 to the IESBA on ED of Sections 290 and 291 of the Code of Ethics on Independence – Audit and Review Engagements and Other Assurance Engagements. Whilst we understand that each jurisdiction will decide on what it considers to be an ESPI, we are of the view that given that the IESBA Code of Ethics is a principle-based standard, we find it difficult and impractical to fully consider the proposals in the Exposure Draft without an agreed definition of what is an ESPI. The HKICPA will need to develop a consultation paper which will take at least twelve months to identify those entities that should be classified as ESPIs in Hong Kong.	HKICPA	Definition of public interest entity addressed under Independence I
350.		The code of ethics will require time to be embedded and understood by users, and CIMA is of the view that caution should be exercised in continually refining it before it has had a chance to be fully implemented. We believe that one of the benefits of a principles-based code is that it can be flexible enough not to need to be constantly revised, and would prefer to see the principles strengthened where necessary, or extra guidance developed on implementing them outside of the code itself, where further clarification is urgently needed	CIMA	Strategic and Operational Plan calls for a period of stability after issuance of Independence I and II and drafting conventions
351.	Period of stability	We and our members support the IESBA's efforts to improve the provisions of the Code relating to auditor independence. We note that it is also important that standards be given time to be disseminated, understood and to have effect, prior to subsequent amendment. Given the recent proposed revisions to Sections 290 and 291 issued December 2006 and the changes on networks also issued in 2006 we trust that this does not herald a series of partial changes to the Code.	Aus	Strategic and Operational Plan calls for a period of stability after issuance of Independence I and II and drafting conventions

Legend

ACCA	
AGNZ	Auditor General New Zealand
AICPA	American Institute of Certified Public Accountants
APB	Auditing Practices Board (UK)
APESB	Accounting Professional and Ethical Standards Board – Australia
Aus	Australian Member Bodies (CPA Australia, NIA and Institute of Chartered Accountants of Australia)
CARB	Chartered Accountants Regulatory Board – Ireland
CICA	Canadian Institute of Chartered Accountants
CIMA	Certified Institute of Management Accountants (UK)
CPAA	CPAmerica
DnR	Den norske Revisorforening - The Norwegian Institute of Public Accountants
DTT	Deloitte Touche Tohmatsu
E&Y	Ernst & Young
FAR	The Institute for the Accountancy Profession in Sweden
FEE	Federation des Experts Comptables Europeens
GTI	Grant Thornton International
HKICPA	Hong Kong Institute of Chartered Accountants
ICAEW	Institute of Charted Accountants of England and Wales
ICPAC	Institute of Chartered Accountants of Cyprus
ICANZ	Institute of Chartered Accountants of New Zealand
ICAP	Institute of Chartered Accountants of Pakistan
ICAS	Institute of Chartered Accountants of Scotland
ICJCE	Instituto de Censores Jurados de Cuentas de España
ICPAS	Institute of Public Accountants in Singapore
IDW	Institut der Wirtschaftsprufer (Germany)
IIA	Institute of Internal Auditors
IOSCO	International Organization of Securities Commissions
IRBA	Independent Regulatory Board for Auditors (South Africa)
IRBAA	Independent Regulatory Board for Auditors (South Africa) Addendum
JICPA	Japanese Institute of Certified Public Accountants
KICPA	Korean Institute of Certified Public Accountants
MIA	Malaysian Institute of Accountants
NIVRA	Nederlands Instituut Van Registeraccountants (Netherlands)
PAOC	Public Accountants Oversight Committee (Singapore)
PV	Piet Veltman, IT AdvisoryDirector Professional Practice

PwC	PricewaterhouseCoopers
RM	Ramachandran Mahadevan
SICATC	Swiss Institute of Certified Accountants and Tax Consultants