The respondents’ responses are divided into four groups:
1. Support with minor amendments
2. Support with reservations
3. Does not support
4. No comment

1. Support with minor amendments

Regulators and Oversight Authorities, Including MG members

5. Independent Regulatory Board for Auditors (IRBA)
Yes. We support the proposed additions relating to the inclusion of the self-interest threat and the possible intimidation threat to independence created by a fee negotiation between the audit firm and the client. We appreciate that this inclusion closely follows the conceptual framework.

During our consultations, it was agreed that this approach was well understood by and acceptable to many stakeholders. However, there have been many discussions which continue to challenge the current funding model of audits where the auditee pays the firm to be audited, without the presence of an intermediary, and whether over time new models could be developed.

We do question whether these additions are adequate to create awareness or to lead to meaningful changes in behavior among auditors, audit firms and clients (410.3 A1).

We also note the placement of 410.3 A1 and propose that it be moved under the subheading “Introduction”, as it refers to all provisions in Section 410.

8. National Association of State Boards of Accountancy (NASBA)
Yes. Given the infrastructure within which most assurance engagements are conducted, NASBA agrees that a self-interest threat is created and intimidation threats might arise when the assurance client negotiates and pays the firm’s fees.

9. Malaysian Audit Oversight Board, Securities Commission (MAOB)
Yes.

10. United Kingdom Financial Reporting Council (UKFRC)
Yes. For example, self-interest threats and actual or perceived threats to independence can arise when:

- There are high levels of fees from one client as a proportion of a firm’s total income or the basis on which a partner’s profit share is determined.
- Fees for non-audit services provided to an audit client are high in relation to the audit fee.
- Fees are, or are perceived to be, too low to enable a high quality audit.
- Fees for completed services/work are overdue.
- There are contingent fee arrangements.
Public Sector Organizations

11. Office of the Auditor General of New Zealand (AGNZ)
We agree with this statement. Agreeing a reasonable audit fee with an entity is difficult because the intangible benefits of an audit cannot be easily quantified. Those benefits emerge in the confidence parties external to the entity subject to audit place on the value of audited information. There is also the intrinsic value provided to external parties that an entity has been audited.

Entities will often focus attention on the utility of the audit to the entity. Such benefits are easier to quantify and tend to dominate discussions about what is a reasonable audit fee.

12. Auditor General of South-Africa (AGSA)
We believe that a self-interest threat is created whenever fees are negotiated and paid by the audit client. Furthermore, there is also a potential intimidation threat to independence that might be created depending on the relative significance to the audit firm of either the fees for other professional services or audit services or both.

We agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client).

Independent National Standard Setters

15. Accounting Professional & Ethical Standards Board Australia (APESB)
APESB does agree that a self-interest threat is created and an intimidation threat to independence might be created when fees are negotiated with and paid for by a client. The Code addresses this through the inclusion of specific requirements and guidance to assist auditors in determining whether these threats will impact their independence.

From the client’s perspective, the issue of fees and independence is a matter to be considered and addressed by Those Charged with Governance (TCWG), either by the Board or an Audit Committee (if one exists for the entity). TCWG have a responsibility to represent the shareholder’s interests, and not management’s. Therefore, if TCWG have the ability to oversee and control the audit fee negotiation process, and are focusing on the shareholder’s interests, then the risks (and potential threats to an auditor’s independence) should be lower with a user-pays model.

APESB is generally supportive of the proposals in the Fees Exposure Draft but believes that further clarity could be provided on when it is not appropriate to continue with an engagement due to threats caused by fees (as elaborated in our response to Question 2 below).

16. New-Zealand Auditing & Assurance Standard Board (XRB)
The NZAuASB supports the premise underlying the proposals that threats to independence are created when fees are negotiated with and paid by an audit or assurance client.

Professional Accountancy Organizations (PAO’s)

17. Joint Submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (ACCA-CAANZ)
We believe there are inherent threats to independence within the audit client payer model. Therefore, we agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client). While we would hope that firms would be aware of all the potential threats to independence created by fees paid by the audit client and apply the conceptual framework to identify, evaluate and address them, we acknowledge that there is a need to raise firms’ awareness and provide guidance. As some members in business will be acting as those charged with governance (TCWG), the Board should consider what
guidance can be provided for members in business who are preparers on how they fulfil their role in making judgements and assessments in relation to auditor independence and fees.

21. Botswana Institute of Chartered Accountants (BICA)

There is an inherent self-interest threat and intimidation threat where fees are negotiated and paid by an audit client. This would otherwise not be the case if the auditor was appointed and paid by a third party.

24. CPA Australia (CPAA)

CPA Australia agrees that a self-interest threat to independence, is created when the payment of fees results in a dependency or potential dependency issue between the professional accountant and the entity or person paying the fee. CPA Australia believes that potential threats to independence are not limited to the payment of the fee by the audit client - the threat may arise regardless of whether it is the audit client, a related party, or the regulator, who pays the fee.

CPA Australia supports the IESBA’s view that an intimidation threat to independence might be created by the payment of the fee. The extent of the threat however, is contingent on factors such as: the level of the fee; the level of the fee in comparison to the turnover of the firm; the level of the fee in comparison to the average fees paid by other clients of the firm; the level of experience and expertise acquired by the firm with respect to the requirements of the engagement and the availability of other auditors who may be able to accept the engagement.

25. Chartered Professional Accountants Canada Public Trust Committee (CPAC)

We agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client). We also concur that an inherent risk exists whenever the party responsible for the subject of an examination directly pays the examiner.

Recognizing that no change is being proposed to the generally accepted client-payer business model, we agree that consistent compliance with professional standards, including ethics requirements, is an important factor in mitigating threats.

26. European Federation of Accountants and Auditors for SMEs (EFAA)

We agree.

28. Hong Kong Institute of Certified Public Accountants (HKICPA)

Yes, we agree with this view. Although this practice is carried out worldwide, we acknowledge this arrangement might create certain level of threat to independence. Compliance with ethical standards and auditing standards can reduce such threat to an appropriate level but cannot fully eliminate the threats.

30. Inter-American Accounting Association (IAA)

Yes, we agree because the issue of fees is directly linked to the threat of self-interest, not only of independence but also of ethical attributes related to fundamental principles such as objectivity, professional behavior, due diligence, among others. Excessive fees, added to all those received by the professional, be it for auditing, review, other assurance and non-assurance services, could position the auditor before users as prioritizing their fees in the aforementioned matters, regardless of whether this is real or not, which would create a negative impact on their apparent independence, even if their real independence was not compromised.

31. Institute of Chartered Accountants of Bangladesh (ICAB)

Yes, we agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client) as stated in the IESBA’s proposed paragraph 410.4 of the Code.

We also believe that the negotiation of audit fees created threats to the independence of the auditor and we agree with the IESBA’s proposed statement.
As per Section 200 of IESBA Code of Ethics for Professional Accountants, a self-interest threat to independence is created when a professional accountant holding a financial interest from the client & also for over dependency on the audit fee and an intimidation threat to independence is created due to pressure to reduce the audit fee by the client or dismissal or replacement of auditor due to any disagreement between auditor and client.

It also seems to be appropriate that through ED, IESBA aims to raise firms’ awareness of the inherent self-interest threat and other threats that might be created when fees are negotiated with and paid by an audit client (or an assurance client); and to provide guidance on how to evaluate and address threats when they are not at an acceptable level as discussed in paragraph 25 of this Explanatory Memorandum.

32. Institute of Chartered Accountants in England and Wales (ICAEW)
Yes: any arrangement in which a member receives remuneration from a source, where future repeat fees might depend on whether the source wishes to reappoint the member, will create a threat. It might not be a significant threat and even if it is, existing processes, requirements and safeguards will usually address it, but that is made clear in the proposed wording.

33. Institute of Chartered Accountants Ghana (ICAG)
Yes, we agree. Per the guidance, "a self-interest threat exists is based on the risk inherent whenever the party responsible for the subject of an examination directly pays the examiner." In addition, the IESBA believes that such practice might also create an intimidation threat to independence.

34. The Institute of Chartered Accountants of India (ICAI)
This is fine with us.

35. The Institute of Chartered Accountants of Scotland (ICAS)
Yes – we agree that a self-interest threat to independence is created, and an intimidation threat to independence might be created, when fees are negotiated with and paid by an audit client (or an assurance client).

We would however suggest that IESBA move away from the term “audit client” in this context and instead use the term “audited entity”. “Audited entity” is the term used by the UK FRC Ethical Standard. The audit client is the shareholders.

A self-interest threat is defined in the Code at 120.6 A3 as “the threat that a financial or other interest will inappropriately influence a professional accountant’s judgement or behaviour.” We believe that when someone is paying you for the services you are providing there is a financial interest involved in that relationship, and therefore, by the very nature of this relationship, there is an inherent self-interest threat. We would add that there is also a public perception that because auditors are paid by their clients they might be beholden to those clients.

36. Institute of Certified Public Accountants of Uganda (ICPAU)
ICPAU agrees that self-interest threat and intimidation threats to independence may be created when fees are negotiated with and paid by an audit or assurance client. However, it is to be noted that the current business model for most audit engagements is such that the audit client directly pays the auditor for this service.

In addition, the level of the fees paid may have an influence on quality of work and perceived or actual independence of the auditor. If the amount is too low, it is likely that the required effort as per the International Standards on Auditing (ISAs) may not be fully achieved so that the engagement can remain profitable. On the other hand, a high fee may impair the auditor’s judgment into giving an opinion that is favorable to the client due to the self-interest or intimidation threat. This is especially so when the proposed fees of the client make up a big percentage of the total fees for the partner or the firm.

38. Mexican Institute of Public Accountants (IMCP)
Yes

39. Institute of Public Accountants (Australia) (IPA)
Yes, we agree there is an inherent risk associated with the audit client-payer model and where non-assurance services are provided by the audit firm.

The risks are heightened in audit tendering (actual or threatened); and where additional audit effort is required by increased client risks and/or new standards (accounting and/or audit) and client will not agree to an increased audit fee.

We believe that the IESBA should introduce new ethical requirements to make preparers – professional accountants in business – accountable for the adequacy of fees paid to auditors.

41. Japanese Institute of Certified Public Accountants (JICPA)
We agree.

42. Korean Institute of Certified Public Accountants (KICPA)
We agree with that the threats might be created under the above circumstance.

43. National Board of Accountants & Auditors – Tanzania (NBAAT)
Yes: We do agree.

46. New York State Society of CPAs (NYSSCPA)
We concur with IESBA’s conclusion that fees negotiated with and paid by an audit client create a self-interest threat to an auditor’s independence. However, we are of the opinion that such fees do not necessarily create a de facto intimidation threat to the auditor. We believe that while the self-interest threat is an inherent threat created by the system of client-paid fees, the existence of an intimidation threat is driven by facts and circumstances. Accordingly, we believe that the auditor should be required to implement safeguards to reduce the self-interest threat to an acceptable level and consider the potential effects of the intimidation threat. We believe that auditors would benefit from improved guidance to assist them in making the intimidation threat assessment.

47. Royal Netherlands Institute of Chartered Accountants (NBA)
We agree that a self-interest threat to independence is created. However we believe this threat is not necessarily at an unacceptable level. A firm should evaluate so. We agree an intimidation threat might be created. This depends, for example, on which body of the audit client decides upon the fees and what fees precisely (for example additional work regarding the audit engagement or NAS). This does not necessarily have to be the body with whom the auditor mainly communicates about the performance of the audit engagement.

48. South African Institute of Chartered Accountants (SAICA)
Yes, we agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client. This threat may occur if fees are significant to a partner and / or to the firm or network firm itself.

In addition, if the fee is so high that the firm would be at risk of losing a large proportion of revenue and profit, the firm or partner will be conflicted between wanting to retain the business and profit, against the potential loss of the client. This might impair their objectivity and independence when exercising professional judgement. Safeguards would thus need to be applied.

Firms

58 Moore Global Network Limited (MOORE)
Yes, we agree that both self-interest and intimidation threats are created by the fact that fees are both negotiated with, and paid by, audit clients.

Both threats are likely to increase significantly as a result of COVID-19:

- Clients facing significant financial pressures are likely to expect audits to be conducted for significantly reduced fees. The requirements for conducting an ISA compliant audit have not,
however changed, and there is a real risk that being faced with such pressures could result in firms being forced to reduce the time and resources allocated to audit work, given their own financial pressures, thereby threatening the quality of audits.

- The client base of surviving audit firms is likely to be smaller, and fee dependence issues, and therefore the self-interest threat, is likely to increase.

Whilst the recently published IESBA Q&As highlight these risks, the guidance does not address the types of safeguards that could be considered, but instead refers back to the conceptual framework. Given that the economic aftershock from the pandemic is likely to last for a significant period of time we are of the view that it would be more effective, during this time, to postpone finalisation of these revisions and instead focus on the need to support firms in dealing with these challenges by providing practical guidance of the safeguards that could be considered when faced with these unforeseen threats.

2. Support with reservations

Regulators and Oversight Authorities, Including MG members

7. International Organization of Securities Commissions (IOSCO)

In Paragraph 410.3 A I it is stated that "fees for professional services are usually negotiated with and paid by the client and might create threats to independence." In fact, Paragraph 410.4 A2 bullet 3 which states "The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of audit and the overall level of fees" better captures the role of TCWG and should be moved to the requirements section.

Moreover, the final sentence in Paragraph 410.3 which states "This practice is generally recognized and accepted by intended users of financial statements" should be deleted as it could be seen as supporting behaviors that potentially enhance threats to the auditor's independence.

Professional Accountancy Organizations (PAO’s)

37. Institute der Wirtschaftsprüfer (Germany) (IDW)

We understand this question as asking commenters whether they support IESBA’s belief as stated in proposed para. 410.4.A1 with a yes or no answer. However, in our view, this issue is not a mere matter of belief, but requires further exploration.

We agree that there is some degree of inherent self-interest threat in the audit client payer model. However, as we discuss in the accompanying letter, we suggest that IESBA needs to recognize fully the impact of both the audit clients’ corporate governance systems and adherence to professional standards and other requirements on reducing self-review threats to an acceptably low level. Thereafter IESBA should consider how to best to articulate its belief outlined in paragraph 23 of the Explanatory Memorandum and – after due deliberation – clarify that appropriate corporate governance measures regarding auditor engagement coupled with proper compliance with appropriate professional standards address this threat such that it does not exceed an acceptable level, such that a determination by the auditor is triggered by certain factors and not required in every engagement.

We agree that an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client, and equally that this will not be the case in all audit circumstances.

40. Institute of Singapore Chartered Accountants (ISCA)

We agree that theoretically and inherently, a self-interest threat and an intimidation threat to independence may be created when fees are negotiated with and paid by an audit client (or an assurance client).

However, provisions in the proposed International Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services
Engagements (“ISQM 1”) would provide significant safeguards, which we believe would be adequate to address the threat to auditor independence.

ISQM 1 deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. One of the components for a firm’s system of quality management required under ISQM 1 is relevant ethical requirements, which should comprise of a firm’s processes for managing compliance with relevant ethical requirements and includes how threats to complying with relevant ethical requirements are identified, assessed and addressed. We believe that ISQM 1 is a sufficient safeguard to ensure that firms and their personnel comply with relevant ethical requirements.

Another safeguard to independence is having an independent audit regulator perform regular audit inspections. Such inspections provide an independent oversight on audit firms and ensure that audit firms hold themselves to high ethical standards.

44. Malaysian Institute of Accountants (MIA)

We agree with the view of the IESBA. However, as those charged with governance (‘TCWG’) oversees the appropriate level of audit fees and accordingly, any self-interest threat would have been mitigated when the fees are negotiated with and paid for by an audit client, unless the audit fees are at exceptionally high or low levels.

Audit fees in Malaysia are comparatively lower than other ASEAN countries and therefore, greater prominence should be given to Professional Accountants in Business (‘PAIB’) to facilitate auditor’s independence and associated audit quality in the proposed revisions to the Code.

We believe that there should be stronger requirements for PAIB in agreeing an appropriate audit fees since the conforming amendments in paragraph 270.3 A3 appear insufficient. Accordingly, we propose that a specific requirement be added to paragraph R270.3 requiring PAIB to apply a reasonable and informed third party test in ensuring that audit fees are sufficient and reasonable to enable the auditors to comply with professional standards and independence requirements.

Firms

52. Crowe Global (Crowe)

We agree that a potential independence threat does arise from the process for negotiating, rendering and collecting fees from audit clients. We agree with IESBA’s efforts to revise the Code of Ethics for this area, but revisions have to achieve a balance, with differentiation between those that apply to the audits of public interest entities (PIE) and those that apply to audits of non-public interest entities.

3. Does not support

Professional Accountancy Organizations (PAO’s)

18. Accountancy Europe (AE)

We acknowledge that there is an inherent risk related to auditor’s independence as audit fees are negotiated with and paid by the audit (or assurance) client. The level of that risk depends on factors such as the parties involved in auditor selection and in audit fee negotiations.

This risk is the raison d'être of the independence standards for auditors and significant safeguards are already in place in response to potential threats. The entire Code and particularly Part-4A aim to ensure auditor’s independence in the audit client payer model. As noted in the explanatory memorandum, this model is widely accepted by users of financial statements.

The quality management systems in audit firms are also relevant in this regard and stand as a significant safeguard especially after improvements introduced by [proposed] ISQM 1. One of the components of these systems is the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Furthermore, there are specific procedures in every jurisdiction regarding the involvement of the audit committee or supervisory board in relation to auditor’s appointment and
remuneration. Finally, audit firms are subject to public oversight which monitors, among others, whether the auditor complies with the independence requirements.

Therefore, we think that the self-interest threat is not a given in all cases. There is a risk which is sufficiently recognised and addressed by the provisions of the extant Code and is also mitigated by other factors described above.

19. American Institute of Certified Public Accountants Professional Ethics Executive Committee (AICPA)

We believe the extant IESBA Code establishes sufficient and appropriate provisions to assist professional accountants and firms in addressing threats to independence that might be created by the negotiation of fees, level of fees charged, or payment of fees. Therefore, we do not support the changes to these areas of the code.

22. Chartered Accountants of Ireland (CAI)

While we support the strengthening of the Code in the context of fees, and understand that IESBA wish to recognise that in an ideal world one would not negotiate with ones examiner, we question whether threats to independence arise during the negotiation process given both the client and the audit firm can walk away at any time during negotiations. The ability to walk away effectively negates any intimidation threat, while the free market and robust tendering processes, in our market at least, mitigate against any self-interest threat.

The free market and robust tendering processes in our market also mitigate against these risks. Furthermore, the Transparency Rules provide visible market information for all interested parties and regulators.

23. Compagnie Nationale des Commissaires aux Comptes (CNCC)

The position of the IESBA, as stated in the explanatory memorandum to this ED appears to be unclear, if not ambiguous, on this issue of the “audit client payer model. In paragraph 22 of the explanatory memorandum to the ED, it is stated that “the IESBA proposes that the Code should recognize the inherent self-interest threat in the audit client payer model”, while in paragraph 25, it is mentioned “with its proposals, the IESBA does not intend to suggest changes to the current business model for audit engagements, which would go beyond its mandate.”

We do not support introducing into the Code the principle that "When fees are negotiated with and paid by the audit client, this creates a self-interest threat [as stated in paragraph 410.4 A1].

It would cast an inherent doubt on the independence of the auditor for a practice that the IESBA itself recognizes as "generally recognized and accepted by intended users of the financial statements,. (410.3 A1) after having also stated that "the IESBA does not intend to suggest changes to the current business model for audit engagements”. We therefore believe that it is neither useful, nor helpful to introduce such a statement in the Code.

We believe that one important element when dealing with this issue of the "audit client payer model is the role of Those Charged with Governance vs Management of the client. The role of Those Charged with Governance (audit Committee in a PIE) should counterbalance the role of Management and the responsibility of the Audit committee to ensure the quality of audit should lead It to make sure that the auditor has the appropriate means and fees to conduct a high-quality audit. On the other hand, discussing and negotiating with the Management of the audit client is also very important for the auditor to be able to scope and price the audit since it is the Management of the audit client who has a detailed and an in-depth knowledge of the entity or the group and of its systems.

The question of the "audit client payer model is therefore not that simple, as to be reduced to a statement that it "creates a self-Interest threat”.

29. Instituto dos Auditores Independentes do Brasil (Ibracon)

We strongly disagree that, in isolation, a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client.
The Code has effective safeguards in place regarding payment of fees by audit client. When an audit firm complies with all requirements and application material in the Code, acting on the public interest, the perception is that any self-interest threat is reduced to an acceptable level.

The charging and payment of fees for any professional service is a long-standing commercial practice. With respect to “negotiation,” we believe that those charged with governance, who are distinct from management, are best placed to determine that appropriate value is obtained from the auditor and whether the audit fee is adequate. Accordingly, we do not believe that the additional material is needed.

45. Malaysian Institute of Certified Public Accountants (MICPA)

We generally concur with the proposed revisions to the Code with regard to evaluation of threats caused by fees. The proposed enhancements dealing with low audit fees, overdue fees, fee dependency and how these and other situations might create a threat to independence are therefore appropriate. We also note that there are effective safeguards in place:

- Through corporate governance framework (e.g. Audit Committees);
- At engagement level, through quality control and engagement performance standards; and
- Through audit regulations and inspection regimes.

In respect to paragraph 410.4 A1, we regard those charged with governance (TCWG) as distinct from management. This distinction is also encapsulated in the Malaysian Companies Act in relation to the Board of Directors and management. As such, there are already check and balance regarding “negotiation” of fees, as TCWG are best placed to determine whether an audit fee is adequate taking into account of the complexities of the business and whether an organisation is obtaining appropriate value from its auditors. We are not clear who would be better placed to negotiate the fees, if not the TCWG.

In addition, payment of fees for any professional services, including audit services, by a client is a long standing and established commercial practice. We are similarly not aware of any jurisdictions where payment of audit fees by a client is causing independence concerns.

Given there are already effective safeguards in practice as explained, we see very little value for the inclusion of additional provision as proposed in paragraph 410.4 A1

49. Wirtschaftsprüferkammer (Germany) (WPK)

We do not agree that negotiation with and payment by the audit or assurance client creates per se a self-interest threat to independence. Whether a self-interest threat is created depends on a bunch of factors (e.g. who the client and how his/her relationship with the auditor is). In making this assessment, fees paid by the client are one factor, only and do not automatically lead to a self-interest threat. We are of the view that when fees are paid by the client this “might” create a self-interest threat. In this sense according to the extant Code a self-interest threat and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (410.2).

The extant Code is designed to address the potential threats inherent in the audit client payer model and recognizes various safeguards to mitigate potential threats to an acceptable level. In addition, compliance with other international standards such as the international standards on auditing and quality control acts to mitigate these threats such that they do not exceed an acceptable level (cf. Explanatory Memorandum paragraphs 23, 29, 31). There are also many pro-visions and instruments, respectively in place on a jurisdictional level to address the threats related to the audit client payer model such as the involvement of audit committees or supervisory boards, external quality control and public oversight. This balanced system appears to be well working since the audit client payer model is globally accepted.

Firms

50. Baker Tilly International (BKTI)

We agree with the statement that threats might be created when applied to the negotiations and agreement of fees for an audit engagement. However, we believe that using the terminology “a threat to independence is created” in the code implies that there is always an actual, rather than perceived, self-interest threat to independence. Furthermore, we believe that there is a potential for a significant intimidation threat in relation to the negotiation and agreement of audit fees where a client may put pressure on the auditor to accept an
insufficient fee for the work required, and indeed to the payment of audit fees. Clients may threaten to withhold payment of audit fees until the audit report is issued. There is a further intimidation threat in relation to non-payment of audit fees where disclaimer or modified audit reports are issued (i.e. the client may contend that the service was not provided to their satisfaction and threaten to withhold payment on this basis). We believe that the wording “might be created” is more appropriate for both self-interest and intimidation threats.

51. BDO International Limited (BDO)

We do not agree there is always a self-interest threat to independence arising when fees are negotiated with and paid by an audit client. We consider such threats would not necessarily be created for a variety of reasons which, inter alia, may include:

- Market conditions and other competitive forces, such as the client representing their own interest in an arm’s length transaction
- The firm’s remuneration practices (which includes the prohibition in R411.4, that does not allow firms to evaluate or compensate a key audit partner based on that partner’s success in selling non-assurance services to the partner’s audit client)
- The fact that fees are negotiated and or paid by a body independent of management, such as an audit committee
- Acceptance of responsibilities in Auditing Standards to ‘ascertain the nature, timing and extent of resources to perform the engagements’.

We agree that dependent on the facts and circumstances an intimidation threat may arise, however, we also believe that one will not always be created.

53. Deloitte Touch Tohmatsu Limited (DTTL)

We recognize that an audit firm’s independence might be perceived to be impacted because the entity being audited is also the audit firm’s client and pays its fees. However, we believe undue emphasis is being placed upon this concept in the proposal, primarily because this inherent risk is already recognized and addressed in the Code.

When taken in its entirety, the Code is essentially designed to provide a framework that addresses the potential impact arising from a “client relationship.” As stated in 100.1 A1, the purpose of the requirements and application material in the Code – which includes the framework for performing independent audits – is to enable a professional accountant to meet their responsibility to act in the public interest and not exclusively satisfy the needs of an individual client.

Therefore, any inherent self-interest in satisfying the needs of an audit client because it pays the audit fees is already reduced to an acceptable level when the audit firm complies with the independence standards and meets its responsibility to act in the public interest.

As recognized by the Board in the ED, the majority of fee negotiations and resulting audit fees will not impact the audit firm’s independence, and we consider that this is because compliance with the independence framework of the Code already addresses and reduces this impact. We also consider this is because the circumstances where the level of the threats created by the fees paid by the audit client is less likely to be at an acceptable level are already covered in the other fee sections (fee dependency, contingent fees, etc.).

Therefore, we believe the proposal is placing undue emphasis on the general concept that a self-interest threat is created by the negotiation and payment of fees, especially as proposed in paragraph R410.4, and we do not support the application guidance as proposed.

54. Ernst & Young Global Limited (EY)

No, we do not agree with the IESBA that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client). We do agree that a self-interest and intimidation threat may be created when there is a fee dependency.
This payment model has long existed, and as described by the IESBA in paragraph 22 of the Explanatory Memorandum, it is a practice that is generally recognized and accepted by intended users of the financial statements. This payment model works because professional standards exist that provide systematic guidelines that help ensure the accuracy, consistency, and verifiability of firms’ actions and reports. We strongly believe that compliance with professional standards, including ethical requirements, is more than just an important factor in mitigating potential self-interest threats to independence resulting from fees being negotiated with and paid by the audit client, and is in fact a significant basis for asserting that such a threat to independence is non-existent. This is because if a firm complies with the professional standards, the audit will be conducted in a manner that is appropriate regardless of the parties involved in negotiating and paying the fee. Having an effective system of quality control under existing standards and proposed International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements functions to eliminate a self-interest threat that may be created due to the payer model. As noted in the explanatory memorandum to IAASB’s Exposure Draft, Proposed International Standard on Quality Management 1 (Previously Internal Standard on Quality Control 1), this standard will require firms to implement and operate a system of quality management to ensure that firms and their personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and that engagement reports issued by the firms are appropriate in the circumstances.

Fees are based on the cost of resources to be utilized, expertise needed, complexity and geographic spread of the client’s operations and the expected time to be spent commensurate on scope, scale and complexity of the audit. Market pricing is also a factor.

Given the purpose of the audit and the role of the professional accountant, we believe it is inappropriate for the Code to contain content that suggests that the independence of the firm should already be called into question by merely participating in a free-market fee negotiation and settlement. We, therefore, do not believe there is a need for the Code to conclude that there is any inherent self-interest threat in the audit client payer model, and that doing so undermines the profession and the purpose of the audit, and is not in the public interest. The Code should identify potential threats and not set forth an assumption that the mere acceptance of the audit engagement should be considered a threat to a firm’s independence when the fees are negotiated with and paid by the audit client. In that regard, we recommend that paragraphs 410.3 A1 and 410.4 A1 be removed, and 410.4 A2 reworded to state:

"Factors that are relevant in evaluating the level of threats created when related to fees charged for an audit or any other engagement are paid by the audit client include: ...”.

Further, we recommend that proposed paragraph 410.4 A3 give more significance to proposed ISQM 1 by replacing the word "might" with "will likely".

55. Grant Thornton International Limited (GTIL)

GTIL disagrees that in the normal course of business, a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client.

Variability in audit fees is caused by client attributes associated with audit effort and audit risk in order to perform a high, quality audit. The size of the client, the industry they operate in, and their overall complexity are factors that are considered when determining an audit fee, regardless of who pays the fee.

Although we do not believe an auditor’s independence or objectivity will be compromised as a result of the standard market practice of an audit client paying their audit fees, we acknowledge that when there may be a fee dependency, there may be threats to the firm’s independence.

56. KPMG IFRG Limited (KPMG)

We believe it undermines the conceptual framework to emphasize so overtly the threat to independence created by the proposed fees paid by audit clients when this threat will often be at an acceptable level. In paragraph 23 of the explanatory memorandum, it is acknowledged that this threat is often at an acceptable level.
However, the proposed text could be misinterpreted to suggest that the negotiation and payment of fees by an audit client will generally create a self-interest threat that is not at an acceptable level.

The treatment of this particular threat in the proposals runs the risk of misleading users of financial statements into believing that audits are fundamentally flawed from an independence perspective because of the acceptance of a fee for those audit services or for other services. This could further lead to an unwarranted focus on the existence of the threat itself, without appropriate consideration or understanding that there are acceptable levels of threats. This may also then lessen the importance of the conceptual framework in those circumstances where threats are more likely to occur and more likely to not be at an acceptable level.

A principles-based Code should enable firms to effectively apply the conceptual framework for most situations, and more explicit guidance should be created when threats are greatest. The extant Code, along with the other proposed changes in the ED, effectively address more significant self-interest threats related to specific fee-related circumstances, such as fee dependency and overdue fees. In addition, the evaluation of self-interest threats will be positively impacted by the new requirements to disclose fees to TCWG and to obtain audit committee pre-approval for PIE audit clients.

57. Mazars Group (MAZARS)

We do not believe that including this statement in 410.A 1 is helpful. If this change was introduced it would apply in virtually every audit with the result that the threat would need to be evaluated, addressed and potentially safeguards applied. This does not seem to be consistent with a principles based code. The current business model where the negotiation and payment of audit fees by an audit client to a firm is well understood and it is difficult to envisage a workable alternative. As explained in the explanatory memorandum paragraph 25, IESBA is not proposing any changes to the current business model so we do not see any benefit from this proposal.

Also, for most PIE audit clients, fees are negotiated with the Audit Committee or equivalent body.

60. PricewaterhouseCoopers International Limited (PWC)

We concur with the overall direction of R410.4 to evaluate threats created by fees but we do not support the inclusion of the proposed application material at 410.4 A1. The Code (as enhanced) addresses low audit fees, pressure on fees and other situations that we agree might create a threat to independence. There are also effective safeguards in place - both structurally through corporate governance frameworks (e.g. audit committees) and audit regulation (including inspection regimes), as well as at the engagement level, through quality control and engagement performance standards. We view the provisions as largely impractical and see little benefit in the Code addressing this matter, given the existing provisions that address the threat.

The charging and payment of fees for any professional service, including the audit, is a long-standing commercial practice and we are not aware of any jurisdictional regulator having concerns about the payment of audit fees by the client (other than potentially at the theoretical level). Notably, in relation to audit and assurance fees:

- we do not believe that such an arrangement creates a mutuality of interest with the client
- the firm has a right to recover costs and the client needs to pay an appropriate market price
- there is no contingency fee basis for assurance services - the fee is based on the skills, time and labour in delivering the service
- the Code already addresses the main concern, which is where the level of audit fees is so low that the quality of the audit is threatened, and furthermore
- the Code addresses other situations that could indeed create a threat to independence (or objectivity), such as overdue fees, contingent fees for NAS, proportion (ratio) of fees and dependency on fees.

With respect to “negotiation,” we believe that those charged with governance (TCWG), who are distinct from management, are best placed to determine that appropriate value is obtained from the auditor and whether the audit fee is adequate given the complexities of an organisation. It is not clear who would be better placed to negotiate the fees if not TCWG. Accordingly, we do not believe that the additional material is needed.
61. RSM International Limited (RSM)

No. IESBA 120.6 A3 defines a self-interest threat as: “Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behavior”. We do not believe that negotiating a fee with an audit client or being paid by an audit client automatically creates a threat to the judgement or behaviour of the accountant. We suggest that the wording be amended to read that “… a self-interest threat might be created…. “.

Others

63. IFAC Small and Medium Practices Committee (IFAC SMPC)

The SMPC believes that such practice, although generally recognized and accepted throughout the world, might create a self-interest threat and also, might create an intimidation threat to independence. We also concur with the Board that compliance with professional standards, including ethical requirements is an important factor that acts to mitigate the threat and firms might often conclude that the level of the self-interest threat is thus at an acceptable level.

Client’s generally will have mechanisms in place for auditor appointment that will also mitigate any threat to independence. We suggest the IESBA consider whether, provided professional standards and ethical requirements are appropriately complied with, and auditor appointment is subject to internal corporate governance requirements – and in the absence of further factors – the threat should not be expected to exceed an acceptable level. We therefore suggest this is clearly articulated in the Code such that only where there are additional factors impacting the level of threat would an evaluation of the threat be needed (and documented).

4. No comment

Regulators and Oversight Authorities, Including MG members

1. Bangladesh Financial Reporting Council (BFRC)
2. Committee of European Auditing Oversight Bodies (CEAOB)
3. Capital Market Authority – Saudi Arabia (CMASA)
4. Irish Auditing & Accounting Supervisory Authority (IAASA)
6. International Forum of Independent Audit Regulators (IFIAR)

Preparers and Those Charged with Governance

14. Japan Audit & Supervisory Board Members Association (JASBMA)

Professional Accountancy Organizations (PAO’s)

20. Association of the Italian Audit Firms (ASSIREV1)
27. Institute for Accountancy Profession in Sweden (FAR)

Others

62. US Center for Audit Quality (CAQ)
64. Porus Pavri (PP)