



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Reference No: AOB/IESBA/R&RT/2020-002

2 June 2020

Mr Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Dear Sir

**REQUEST FOR COMMENTS ON IESBA'S EXPOSURE DRAFT ON THE
PROPOSED REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE**

In relation to the above matter, we are pleased to provide our comments on the proposed revisions to the Code, as attached in **Appendix I** of this letter.

Should you require any further clarification, please do not hesitate to contact me at +603 6204 8816 or at my email alexo@seccom.com.my.

Thank you.

Yours sincerely



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AUDIT OVERSIGHT BOARD

Comments on International Ethics Standards Board for Accountants Exposure Draft *Proposed Revisions to the Fees-Related Provisions of the Code*

The Audit Oversight Board, Malaysia (AOB) supports the efforts of the International Ethics Standards Board for Accountants (IESBA) in proposing enhancements to the fee-related provisions of the Code to enable the professional accountants to meet their responsibility to comply with the fundamental principles in the Code and be independent.

Evaluating Threats Created by Fees Paid by the Audit Client

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

Yes.

2. Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:

- (a) Before the firm accepts an audit or any other engagement for the client; and

Yes.

However, the AOB is of the view that the term "acceptable level" should be further defined by the IESBA. It would be beneficial to provide examples and guidance on this matter.

- (b) Before a network firm accepts to provide a service to the client?

Yes.

However, the AOB is of the view that the term "acceptable level" should be further defined by the IESBA. It would be beneficial to provide examples and guidance on this matter.

3. Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?

The AOB has no other suggestions on additional factors relevant to evaluate the level of threats created when fees for an audit or any engagement are paid by the audit client. The AOB is supportive of recognising, as an example, the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence.

Impact of Services Other than Audit Provided to an Audit Client

4. Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

Yes.

Proportion of Fees for Services Other than Audit to Audit Fee

5. Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- (a) Charged by both the firm and network firms to the audit client; and

Yes.

However, the Code should define the permissible ratio of fees for services other than audit to the audit fee to ensure consistent application across audit firms.

- (b) Delivered to related entities of the audit client?

Yes.

However, the Code should define the permissible ratio of fees for services other than audit to the audit fee to ensure consistent application across audit firms.

Fee Dependency for non-PIE Audit Clients

6. Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

The AOB is supportive of both proposals.

7. Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

Yes.

Fee Dependency for PIE Audit Clients

8. Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

Yes.

9. Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

IESBA should consider defining a shorter period (i.e. less than 5 years) for a firm to cease to be the auditor if fee dependency continues in the case of a PIE audit client in order to mitigate threats to independence.

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

No.

Transparency of Fee-related Information for PIE Audit Clients

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

Yes, the AOB is supportive of the proposed requirement in paragraph R410.25.

Further, there is no major concern on the operability of the proposal in view that Malaysian public listed companies are required, under the stock exchange listing requirements, to disclose the following fee-related information:

- amount of audit fees paid or payable to the listed issuer's auditors, stating the amount incurred by the listed issuer and the amount incurred on a group basis respectively;
- amount of non-audit fees paid or payable to the listed issuer's auditors, or a firm or corporation affiliated to the auditors' firm, stating the amount incurred by the listed issuer and the amount incurred on a group basis respectively;
- If the non-audit fees incurred were significant, details on the nature of the services rendered; and
- If no non-audit fees were incurred, a statement to that effect.

12. Do you have views or suggestions as to what the IESBA should consider as:
(a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and

None.

- (b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

None.

Anti-Trust and Anti-Competition Issues

13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

None.

Proposed Consequential and Conforming Amendments

14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

The AOB has no objection to the proposed consequential and conforming amendments to Section 905 and other sections of the Code.

The AOB is of the view that a firm must obtain full payment of all overdue fees from its audit or assurance clients before a report is issued in order to safeguard the independence of the firm.

15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

No.