

June 11, 2020  
Ref.: SEC/023/20 – DN

International Ethical Standards Board for Accountants (IESBA)  
545 Fifth Avenue, 14th Floor  
New York, NY 10017  
USA

Dear Sirs,

We, Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the Exposure Draft: Proposed Revisions to the Fee-related Provisions of the Code.

### **Request for Specific Comments**

#### ***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)?**

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.

#### **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**

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

In accordance with our comments above, we do not believe that this requirement might bring any benefit to the public interest's assessment.

**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?**

Similar to our comments on the questions 1 and 2 above, we do not have views or suggestions given that we believe that the risk of creating independence threats is already addressed in the entire Code. Also, having an independent committee is a relevant factor but we do not believe that this may bring additional safeguards for any independence threats as outlined above.

***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?**

We are not able to support the proposition that an audit firm does not allow the level of the audit fee to be influenced by the provision of services other than audit to the audit client. We understand that this is an important effort to deal with a perception issue but, we understand that would be necessary more elements to conclude that independence could be impacted such as which fundamental principles are threatened, in what circumstances might the threats not be at an acceptable level, and which safeguards could be put in place to reduce the threats at an acceptable level. Without this information, it is not possible to identify an ethical benefit with the proposition that a threat to independence will be created. In addition, it would be important to have examples on how to grant conformity within this requirement. A discussion with audit client's governance could be used as an example. The provision of services other than audit may permit cost savings, as stated in the proposed paragraph 410.6 A2, and this is an important factor to be considered.

***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**

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

We agree that this might be perceived by public interest as a potential independence issue and the factors proposed to evaluate the level of threats related to the proportion of fees for services other than audit are appropriated. Additionally, we understand that the financial dependency for the entire audit firm should be correlated on this topic. Despite the factors provided,

examples of safeguards would be appreciated in order to help addressing such situations, including in what circumstances the threats might be at an acceptable level.

*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?**

We believe that situations related to fee dependency for non-PIE audit client should be discussed between client's governance and the audit firm. A threshold may discourage a proper threat assessment, including the application of safeguards. All threats arising from fee dependency should be evaluated under the conceptual framework, regardless of whether the audit client is a PIE or not. In addition, a threshold could limit the market for Small- and Medium-Sized Entities and Small and Medium Practices.

**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?**

We support the proposed actions in paragraph R410.14 in order to reduce the threats created by fee dependency to an acceptable level. In contrast, safeguards could be applied before a five consecutive years period. More examples of actions that might be safeguards in paragraph 410.13 A7 would be appreciated.

*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?**

We support that having an engagement quality review performed by an independent professional of the audit team is an important safeguard to maintain the objectivity of the audit performed. However, it is not clear the rationale for considering two consecutive years or the 15% threshold. We suggest that more explanation on those circumstances could be included in the Code in order to demonstrate which fundamental principle is being compromised.

**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?**

We recognize that fee dependency might be a significant threat to the auditor independence. However, the Code establishing an obligation to cease the audit might bring some legal issues for certain jurisdictions where the auditor resignation is complex. Therefore, the Code could present safeguards to be applied every year and enhancements on those safeguards for every year that the fee dependency is raised, regardless of the five years-period. Concurrence with the client's governance should also be considered to reduce the threats in an acceptable level.

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

In connection with our responses in question 9 above, these exceptions could also be considered as safeguards to be applied in order to reduce the independence threats to an acceptable level.

***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?**

We recognize that transparency of all auditor relationships with and fees charged to the audit client is in fact a significant action for the public interest. However, we understand that the responsibility for disclosing fees should not be the responsibility of the audit firm, given the audit client's management is in a better position to disclose such information. It is important to mention how difficult would be to disclose the fees related to audit firms from a different network firm, considering this is a corporate information to which the audit firm has no access. Besides the kind of information that it is considered relevant to be disclosed, the Exposure Draft should specify on what basis this information would be disclosed. In addition, it is not clear which methodology the auditor should follow to disclose this information. This could lead the users for a misunderstanding of the information and the auditor role as independent professional. The Board would also consider fees for the auditor components and statutory audits performed for other affiliates where they are not related to the Group audit. Some clarification should be inserted in the Code whether the Board decides to continue with this proposition.

**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**

Our comments are related to our responses on question 11 above.

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

See our comments in question 11 above.

***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.**

We recognize that some jurisdiction might have this potential conflict on the rules and regulation. Therefore, we recommend the inclusion of an application material in the Code requiring attention to the local laws regarding anti-trust and anti-competition.

### *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?**

Please consider our comments above in previous question for the proposed consequential and conforming amendments. For the overdue fees, we believe that an evaluation of the independence threats should be considered prior to issue the assurance report, but not an obligation to receive these overdue fees to issue the audit report. The facts and circumstance should be assessed.

**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?**

The conclusion about new definitions of PIE should be concluded together with this Exposure Draft.

### **Request for General Comments**

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- ***Those Charged with Governance, including Audit Committee Members*** – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight. This includes small businesses where a single owner manages the entity and also has a governance role.

See in question 11 above our comments regarding the transparency of information related to fees for the public interest. Examples on how to disclose such information by client's management would be helpful and may avoid unintentionally misunderstandings.

- ***Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)*** – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

See in question 6 above our comments related to Small- and Medium-Sized Entities and Small and Medium Practices.

- ***Regulators and Audit Oversight Bodies*** – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

See in question 10 above regarding the examples of factors an independent regulatory body should consider to concur that having the audit firm continuing as the auditor would be in the public interest.

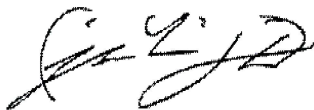
- ***Developing Nations*** – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

Not applicable.

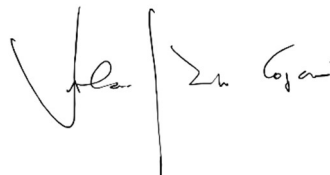
- ***Translations*** – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

No comments.

Best Regards,



**Francisco A.M. Sant'Anna**  
President



**Valdir Renato Coscodai**  
Technical Director