



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

20 March 2018

Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2018/PK/C1/IESBA/13

Subject Line: IESBA's Fees Questionnaire

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to provide input on the International Ethics Standards Board for Accountants' (the IESBA or the Board) *Fees Questionnaire* (the Questionnaire). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing matters, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



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Overall Comment

We appreciate the Board seeking stakeholder views about the level of fees charged by audit firms and how that might bear on the auditor’s independence. While we have not responded to the specific questions in the Questionnaire as a result of its subjective nature, we thought it might be beneficial for us to provide to the Board areas in the Code related to fees that could be strengthened.

Section 240 of the Code

Perception Issue

Section 240.1 of the Code states that:

“When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.”

While we agree that there may be threats to compliance with the fundamental principles arising from the level of fees quoted and the example that follows, we believe that the Code should emphasize that low fees can create a perception issue regarding whether audit quality is being compromised. We believe the Code should include safeguards to mitigate this threat including not accepting, or resigning from, the audit engagement, and not pursuing non-audit fees to compensate, in situations in which the fee quoted is so low that it would be difficult for the auditor to perform the engagement in accordance with applicable technical and professional standards for that price.



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Appropriateness of Safeguards

Section 240.2 states that:

“The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee; or
- Assigning appropriate time and qualified staff to the task.”

We believe that the above two bullets are inappropriately categorized as safeguards. Where the level of fee quoted creates a threat to compliance with the fundamental principles it becomes an issue that the firm has to evaluate. However, simply making the client aware of the terms of the engagement does not mitigate the threat and would seem to be something auditors are already required to do in many jurisdictions throughout the world or if not required, they do so voluntarily. We believe these two bullet points are simply good practices and both should be included in Section 240.1 as general guidance. Having said that, we believe the safeguards itemized in 240.4 should then be included as safeguards under Section 240.2. These safeguards include:

- “An advance written agreement with the client as to the basis of remuneration;
- Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration;
- Quality control policies and procedures; or
- Review by an independent third party of the work performed by the professional accountant in public practice.”



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Section 291 of the Code

Appropriateness of Safeguards

We also note that Section 291.149 of the Code states that:

“A self-interest or intimidation threat is also created when the fees generated from an assurance client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional professional accountant who was not a member of the assurance team review the work or otherwise advise as necessary.”

Likewise, Section 291.154 states that:

“For other contingent fee arrangements charged by a firm for a non-assurance service to an assurance client...[t]he significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Having a professional accountant review the relevant assurance work or otherwise advise as necessary; or
- Using professionals who are not members of the assurance team to perform the non-assurance service.”

We continue to believe that the safeguards used to mitigate the threat to the firm's or network firm's compliance with auditor independence requirements as noted above are inappropriate. If the fees generated create a threat to the auditor independence requirements of the *firm* or *network firm*, how then can any professional within that firm or network firm be used as an effective safeguard? Since “the firm” received the fees from the client, the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors. The threats to independence are with respect to the entire firm or network firm and therefore other safeguards outside of the firm or network firm would be more effective in mitigating any risk with respect to an audit engagement in those circumstances. In addition, we might expect that



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because of the specialized nature of certain types of non-audit services, staff not participating on the audit engagement frequently perform these services. Thus, the safeguard is not usually pertinent. We are concerned that the language and implicit message in Section 291 noted above would lead the public accountant to conclude that self-interest and self-review threats are only confined to the individuals on an engagement team, rather than to the entire audit and/or network firm itself.

Notwithstanding the above, we recognize that there may be specific circumstances in which a partner spends a majority of his/her time on one audit client as a result of the relative size and complexity of the client. Whereas such circumstances continue to create a threat to independence, it may not be practical to engage an individual from outside the firm as a safeguard to mitigate the threat. In those situations the firm should consider whether the threat could be mitigated by implementing safeguards currently included in paragraph 240.2 such as quality control policies and procedures. For example, having such engagements on a more frequent cycle for purposes of internal quality control inspections may be an effective and practical safeguard.

Other Related Matters

Advanced Approval of Non-Audit Services

We believe the Code should require the auditor to seek approval in advance from those charged with governance (i.e., the audit committee or similar body) for all non-audit services because of the potential impact on auditor independence. Further to this point, we have observed that in some jurisdictions there is also a requirement for the auditor to assess the nature, size and cumulative effect on independence when the auditor is providing multiple non-audit services to the audit client, prior to the acceptance of those services. We believe the Board should also consider a similar requirement in its Code.



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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Doug Niven on ph. +61 2 9911-2079 (email: douglas.niven@asic.gov.au) or Nigel James at ph. + 1 202-551-5300 (email: jamesN@sec.gov). In case of any written communication, please mark a copy to me (email : nagpal@sebi.gov.in).

Sincerely,

Parmod Kumar Nagpal
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions