



Paris La Defense, June 4<sup>th</sup>, 2020

**To: Ken Siong**  
IESBA Senior Technical Director

Re: Comment on IESBA - **Proposed Revisions to the Fee-related Provisions of the Code**

Dear Mr Siong,

MAZARS is pleased to submit this letter in response to your invitation to comment on the Proposed Revisions to the Fee-related Provisions of the Code

MAZARS is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1<sup>st</sup> January 2020, there are over 24,000 professional staff including more than 1,000 partners, in 91 countries worldwide, trusted and committed in serving major international groups, entrepreneurial and small businesses, private investors and public bodies at every stage of their development.

MAZARS appreciates and supports all initiatives taken to enhance professional independence and ethics and the future of the profession for the benefit of the public interest and welcome the opportunity to add our views to the debate. The debate on auditors' independence has been in full flow in a significant number of countries for the past few years, and MAZARS is fully committed in steering change to support this cause.

We believe that the proposed revisions to the Fee-related Provisions of the Code will help improve independence in the way audits and reviews are conducted. However, we want to emphasize on the following aspects of the standards where we consider further guidance or development is required which is included in our detailed responses.

You will find in attachment to this letter the detailed comments to your questions raised in the exposure draft dated January 2020.

We hope these responses will help to illustrate our commitment and our effort for continuous improvement in auditors independence.

We would be pleased to discuss our detailed comments with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

Jean-Luc Barlet  
*MAZARS Chief Compliance Officer*  
[jean-luc.barlet@mazars.fr](mailto:jean-luc.barlet@mazars.fr)

**Attachments:** Completed Responses to IESBA - Proposed Revisions to the Fees-related Provisions of the Code

## Questions and responses

### 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) ?

Response:

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.

- 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 :

- Before the firm accepts an audit or any other engagement for the client; and
- Before a network firm accepts to provide a service to the client ?

Response:

We agree with this proposed requirement.

- 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 ?

Response:

We support the examples of relevant conditions, policies and procedures, however we do not believe that the creation of an independent committee which advises the firm on governance matters that might impact the firm's independence should be mandated. We think that this would be difficult for smaller firms to introduce and therefore potentially place them at a competitive disadvantage which would be undesirable.

As an alternative, we recommend that the firm should appoint a partner, who has appropriate seniority/authority, who is responsible for quality at a firm level and who can advise the firm's leadership on matters that may 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 ?

Response:

We agree that the audit fee should be negotiated at a level which will enable the auditor to perform a high quality audit and should not take into account any other services provided by the firm.

### Proportion of Fees for Services Other than Audit to Audit Fee

- 5) 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?

Response:

We agree with (a). As far as (b) is concerned, we think you should consider restricting the related entities to those entities which are included in the consolidated financial statements of the audit client. Services provided to related entities which are not included in the consolidated financial statements appear to pose a less direct threat to the auditor's independence.

### 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 ?

Response:

We do not believe that including a threshold for addressing threats created by fee dependency for non-PIE clients is helpful or appropriate and is not wholly consistent with a principles based code. Setting such a threshold is likely to disproportionately impact smaller and newly formed firms and hence overall competition in the audit market.

- 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 ?

Response:

We do not consider the proposed actions are practicable. It may be difficult to find suitably qualified individuals who are willing to take on this role. There are also cost implications for the client to consider. Appointing someone from another firm to review the audit file could also introduce confidentiality threats.

In addition, what would the independent reviewer's authority be and how would any disagreements between them and the firm be resolved?

Also, when a joint audit is in place, this constitutes a safeguard for the independence of the auditors.

### 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?

Response:

We do not think the proposal is practicable and can foresee difficulties in finding appropriately qualified reviewers in the concentrated timetable of a PIE audit. We would prefer that in this scenario the formal approval of TCWG/Audit Committee of the client is obtained.

Also, when a joint audit is in place, this constitutes a safeguard for the independence of the auditors.

- 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?

Response:

We do not agree with the proposal to force a firm to resign as auditors of a PIE client if fee dependency continues for five consecutive years. A better approach would be to require the formal approval of the appointment by TCWG/Audit Committee as they best qualified to consider auditor independence in relation to a specific entity.

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

Response:

Please see response to point 9 above.

### 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?

Response:

We are not persuaded that disclosure of fee related information should be covered in the IESBA Code of Ethics. Rather, it is the responsibility of specific country laws and regulations or Stock Exchange disclosure regulations or International Financial Reporting Standards.

We are not clear what is intended by R410.25 (a) (ii) that the firm shall be satisfied that the information is publicly disclosed about “actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement”. If it relates to fees paid to other firms who are not the group auditors or joint auditors for component audits, it may be difficult to gather the relevant information and it is not clear what benefits are served by disclosing this information. We recommend that this requirement is clarified. As far as sub paragraph (c) is concerned we are not in favour of the proposed disclosure described in this sub paragraph. Compiling the information would be difficult and it could quickly become out of date, for example if the firm won a significant new client in the period between planning and completing the audit. Additionally, we are not wholly persuaded that the information would be of interest to the public.

Paragraph 410.25 A3 suggests that if the information is not disclosed by the audit client, then it should be disclosed by the firm. We do not see how this is practicable if the information is not required to be disclosed in the financial statements/annual report by statute or IFRS disclosure requirements.

- 12) Do you have views or suggestions as to what the IESBA should consider as:
- Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and
  - Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm’s independence?

Response:

- (a) Liaise with other standard setting bodies e.g. IASB, to ensure that this information is required to be disclosed in the Annual Report of the PIE client
- (b) The Annual Report should include a formal assessment by TCWG on the steps they have taken to ensure auditor independence and their conclusions
- (c) The auditor’s report in the financial statements already includes a specific confirmation of their independence.

### **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.

Response:

Not Applicable to Mazars.

### 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 ?

Response:

With regard to 905.8 A3 second bullet point “having an appropriate reviewer who did not take part in the assurance engagement review the work performed”, we are not convinced that this is a practical safeguard.

We would normally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement.

- 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 ?

Response:

None identified.