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Mr. Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 5th Avenue  
New York, New York 10017  
USA

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

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) Exposure Draft (ED) in respect of Proposed Revisions to the Fee-related Provisions of the Code.

BDO is dedicated to upholding the highest ethical standards and complying with both global and firm policies and external professional standards. Independence is the cornerstone of our profession and the fundamental principle from which trust and confidence in the reliability of audit, review and other assurance reports to third parties is based. As a member of the accountancy profession, we accept the responsibility to act in the public interest. We support the Board in working to keep the IESBA Code relevant and fit for purpose.

**General comments**

We believe that alignment of the timing of this project together with the NAS and Fees projects is critical. We are pleased to see the acceleration of the definitions project. We recommend that the finalization of the NAS and Fees projects be aligned with the definitions project. This would allow IESBA to consider if re-exposure of the NAS and Fees projects is necessary. Our views expressed herein are based on the current definition of PIEs and could change should the definition of PIE change.

Our views on the specific questions are noted below.

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## Specific comments

Our views in response to the specific questions posed are as follows:

### *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 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.

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?**

We do not support the requirement in R410.4 (and related 410.4 A1). As stated above, we do not consider that there is always a self-interest threat. Where such a threat arises, we support the requirement to evaluate the level of the threat.

Suggested wording changes to R410.4 that might acknowledge the fact that self-interest threats may or may not arise is provided in red below: *'Before a firm or network firm accepts an audit or any other engagement for an audit client, the firm shall determine whether **there are any** threats to independence created by the fees proposed to the client and if so whether they are at an acceptable level. The firm shall also re-evaluate such threats where appropriate during the engagement period for the audit if circumstances change.'*

We acknowledge that there are circumstances where fees would create threats to independence as identified by the Board in the proposal, for example fee dependency, and therefore it might be helpful to provide examples or cross references within section 410.4.

For the proposed new factor in 320.3 A4 and 410.4.A2 *'The level of fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities and position.'* we recommend revising the wording; although we believe we understand the sentence, it is not all that clear and may present translation issues. Additionally, the auditing standards require auditors to assign

appropriate resources without consideration of fee levels which would prevent such a direct connection. Therefore, notwithstanding our comment on the overall wording of this sentence, we believe it should also be phrased in terms of a 'perception' i.e. *'The level of fees and the extent to which they are perceived to have regard to the resources required, taking into account the firm's commercial and market priorities and position.'*

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 structure and governance of firms are specific to the facts and circumstances and matters of this type, although relevant to independence, are better to consider under the broader heading of corporate governance which is already included in section 120.8.

We would recommend adding the firm's remuneration practices as an example of relevant conditions, policies and procedures to 120.8 A2.

#### *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 believe the term 'influenced' is too broad and would recommend it be replaced by the concept of being 'determined' based on services other than audit.

#### *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?

Yes, we support this new guidance.

#### *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?

While we agree that many stakeholders would be of the view that consistent fee levels at 30% of total fees would result in a high level of threat to independence, for non-PIEs, our preference is for the Code to remain principles-based rather than selecting a threshold as proposed in R410.14.

- 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?**

As stated above in Q6, our preference is for the Code to remain principles-based. However, we agree that the proposed actions could be effective safeguards and should be included as examples of possible safeguards that would reduce threats to an acceptable level.

***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?**

Where total fees do exceed 15%, we have always considered the two-year period to be robust and appropriate in the context of having an option of a post-issuance review. We do not support the removal of this option as a safeguard, however, if the Board believes that it should be removed, we would recommend that the two-year period be extended to three years.

Paragraph R410.17 suggests that a pre-issuance review might be a sufficient safeguard to reduce threats to an acceptable level, however, it does not then describe the available options to the auditor should this not be the case.

- 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 do not agree that the proposed requirement R410.19. should be included in the IESBA independence standards. Such an inflexible requirement at a global level could have unforeseen and unintended consequences to the local audit market.

The appropriateness of mandatory firm rotation due to fee dependency should take into account local jurisdictional facts and circumstances and be dealt with by national standard-setters or local regulators.

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

Based on our response to question 9, the exception would not be required if R410.19 is removed from the proposed standard.

If R410.19 remains in the proposed standard, we believe that an exception is appropriate. However, we believe instead of a firm being required to consult with an independent regulatory body or professional body (R410.20 (a)), we believe it would be more appropriate for consultation with TCWG to occur.

## *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 acknowledge stakeholders' views of the benefits of enhanced transparency about fee-related information of PIE audit clients to the public and indeed we recognise that high levels of transparency do exist in many jurisdictions. However, we do not believe this mandate falls within the scope of the accounting profession's independence and ethical standards or remit of the Board. We believe that the appropriate mechanism for this disclosure is through the PIE entity's corporate reporting requirements. Accordingly, we do not believe that this should be disclosed as part of the audit report (410.25 A4).

Additionally, with regards to R410.25(c), we do not support the proposal to disclose situations where the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years. There are often many factors that go into the assessment of the auditor's independence, including the application of effective safeguards. It is unclear to us why the fee dependency threat should be singled out to be highlighted for public disclosure and not any other threat to independence. Such a disclosure is likely to, unjustifiably, undermine the confidence in the individual audit. If the Board, however, determines that such disclosure should be required by the Code, we recommend that safeguards implemented by the firm to address potential fee dependency also be included in the disclosure.

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

We believe that public disclosure of any fee-related information should be a requirement set by the PIE audit client's corporate reporting requirements and not through independence and ethical standards.

### *Information to be disclosed to the public of a PIE audit client:*

We believe that auditor independence is a shared responsibility between the audit firm and TCWG. In many jurisdictions the auditors are also required to disclose that they are independent within the auditor's report and corporate reporting requirements in certain jurisdictions allow TCWG to disclose the steps taken to ensure their auditor's independence.

We do not believe it is necessary for the public to have sufficient information to make their own judgments and assessments about the firm's independence, rather they should be provided with sufficient information to have the confidence that TCWG have fulfilled their responsibilities to make this assessment. Therefore, we do not believe the Code should require any public disclosure of fees and R419.25 and related application material should be removed from the proposed standard.

### *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.

BDO's global organization extends across 167 countries and territories. Each firm is bound by jurisdictional law and it is our understanding that certain BDO firms may not be able to implement certain aspects of the proposal due to national anti-trust laws. In such cases, we would expect that such firm(s) would apply R100.3 which states:

*A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.*

### *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?

Overall, we support the conforming amendments.

We do have a concern with the following:

Section 330, Fees and Other Types of Remuneration:

330.3 A3 - For one of the factors that are relevant in evaluating the level of threat related to level of fees - the proposed change is:

Whether the client is aware of the terms of the engagement and in particular, the basis on which fees are **determined** (previously it was the basis on which fees are **charged**).

The term 'charged' has been retained in other areas of Section 410 and Section 905 (some examples are 410.2, 410.5 A1, 410.7 A1, 410.10 A1, 410.22 A1, R410.23 and R410.25).

It is not clear what would be the difference between 'determined' and 'charged', so we would recommend that the difference be clarified or the term should be changed back to 'charged'.

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. We are not aware of any other areas within the Code that may warrant a conforming change.

## Other comments

In R410.12, there is reference to fees being unpaid 'for a long time'. We believe this term could be interpreted in different ways by different users of the Code. We would recommend defining the term or providing examples of what would represent a long time.

In R410.22 and R410.23, communication is required 'in a timely manner'. We believe this term could be interpreted in different ways by different users of the Code. We would recommend defining the term or providing examples of what would represent a timely manner.

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We appreciate the opportunity to comment on the ED, which has proven to be a substantial publication by the IESBA. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited  
Chris Smith  
Global Head of Audit and Accounting