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Our ref SRA/288

3 June 2020

Dear Mr Siong

Exposure Draft: Proposed Revisions to the Fee-related Provisions of the Code

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We are supportive of the IESBA's goal to strengthen the International Independence Standards and to improve communication and transparency with those charged with governance (TCWG) related to fees. While we agree with many of the proposals in this Exposure Draft (ED), we have certain concerns that we have outlined below (see A-E). Additionally, Appendix A to this letter provides our responses to the specific questions posed in the ED and Appendix B provides additional editorial comments.

A. PIE definition project

As we noted in our comment letter on the Exposure Draft: Proposed Revisions to the Non-Assurance Services Provisions of the Code (NAS ED), as the term public interest entity (PIE) is defined in the extant Code, we agree with the Board's view that stakeholders of these entities have heightened expectations regarding the audit firm's independence and, similarly, we agree with the provision of independence standards specific to PIEs. However, with a project currently underway to revisit the definition of a PIE, it is uncertain whether the project will result in a revised definition that includes a broader array of entities.

Accordingly, our comments herein are based on, and should be considered by the Board solely in the context of, our understanding of PIEs as they would be determined under the extant Code.

We suggest the Board complete the PIE definition project before moving forward with approval and issuance of the Fees standard, so that stakeholders can

consider the Fees proposals in the context of an expanded PIE definition. We believe these are critical considerations given the nature and extent of the new independence requirements proposed for PIEs.

B. Evaluating threats created by fees paid by the audit client

We believe it undermines the conceptual framework to emphasize so overtly the threat to independence created by the proposed fees paid by audit clients when this threat will often be at an acceptable level. This treatment of the threat in the proposals runs the risk of misleading users of financial statements into believing that audits are fundamentally flawed from an independence perspective because of the acceptance of a fee for those audit services or for other services. This could further lead to an unwarranted focus on the existence of the threat itself, without appropriate consideration or understanding that there are acceptable levels of threats. This may then lessen the importance of the conceptual framework in those circumstances where threats are more likely to occur and more likely to not be at an acceptable level. We also disagree with the proposed requirement to evaluate the threats to independence created by the fees proposed to the client at R410.4 because we believe such evaluation would already be required under R120.7 of the conceptual framework and R400.12 to the extent that a threat to independence related to such fees was identified.

C. Impact on audit fees of services other than audit provided to an audit client

We believe that the audit firm should focus on establishing an audit fee that supports a quality audit. Audit fees are determined using judgment and consideration of many factors, including overall client risk, staff capacity, audit timing, required specialists, etc. It is unclear to us how the prohibition at R410.6 of the singular consideration of NAS services provided to the audit client in establishing the audit fee would reduce threats to independence or favorably impact audit quality. In that same regard, because of the myriad other factors that may influence audit fees and the overall level of judgment applied in establishing audit fees, we believe compliance with this requirement would be virtually impossible to effectively operationalize and evidence.

D. Fee dependency for audit clients

For non-PIE audit clients, we do not support the proposal of a specific fee dependency benchmark. We believe the Code should remain principles-based, allowing the auditor and firm to apply the conceptual framework to evaluate and address threats to independence. We have concerns that establishment of a specific fee dependency benchmark will discourage the appropriate evaluation of a threat created by fee dependency and the

application of appropriate safeguards when the benchmark in the requirement is not met. We suggest that the safeguards proposed in R410.14 could be incorporated into the list of potential safeguards in 410.13 A7 to acknowledge their possibility as an appropriate safeguard for non-PIE audit clients.

For PIE audit clients, we have concerns about the proposal requiring termination of the audit relationship if the fee dependency circumstance described in R410.17 continues for five consecutive years. We believe this requirement in certain cases could impact audit quality, especially where TCWG have a better line of sight to auditor independence concerns and can make informed decisions on the need for a firm to rotate off the audit engagement.

E. Transparency of fee-related information

We believe transparency of fee-related information to stakeholders of audit clients is best accomplished by audit client management. Audit client management are best placed to disclose all audit fees paid, and to provide proper context for fees paid, so that the information can be interpreted appropriately. Inclusion of fees paid in the auditors' report may result in a misconception that the quality of the audit, or even the audit opinion itself, is influenced by the fees. Accordingly, we believe the requirements for public disclosure should be placed on the audit client and promulgated by the appropriate regulators or financial reporting standard setters.

Further, if the requirement for disclosure by the audit firm is retained, we do not support the requirement for firms to disclose audit fees paid to non-network firms as we do not believe it would be appropriate when such fees have no bearing on the principal auditor's independence. We also question how the audit firm expressing the opinion on the financial statements would validate such information from non-network firms before public disclosure, as the audit firm would have no direct involvement in, or knowledge of, such fees.

Lastly, as also mentioned in our comment letter on the NAS ED, we prompt the Board to consider carefully the implementation period so that sufficient time is provided for firms to operationalize the new requirements of the approved standard. This will be crucial given the volume of significant new proposals from several projects that will likely become effective within a short span of time, if not simultaneously (e.g., NAS, Fees, Role and Mindset, and Definition of Listed Entity and PIE).



Please contact Karen Bjune at kbjune@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix A: Responses to Specific Questions

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 believe it undermines the conceptual framework to emphasize so overtly the threat to independence created by the proposed fees paid by audit clients when this threat will often be at an acceptable level. In paragraph 23 of the explanatory memorandum, it is acknowledged that this threat is often at an acceptable level. However, the proposed text could be misinterpreted to suggest that the negotiation and payment of fees by an audit client will generally create a self-interest threat that is not at an acceptable level.

The treatment of this particular threat in the proposals runs the risk of misleading users of financial statements into believing that audits are fundamentally flawed from an independence perspective because of the acceptance of a fee for those audit services or for other services. This could further lead to an unwarranted focus on the existence of the threat itself, without appropriate consideration or understanding that there are acceptable levels of threats. This may also then lessen the importance of the conceptual framework in those circumstances where threats are more likely to occur and more likely to not be at an acceptable level.

A principles-based Code should enable firms to effectively apply the conceptual framework for most situations, and more explicit guidance should be created when threats are greatest. The extant Code, along with the other proposed changes in the ED, effectively address more significant self-interest threats related to specific fee-related circumstances, such as fee dependency and overdue fees. In addition, the evaluation of self-interest threats will be positively impacted by the new requirements to disclose fees to TCWG and to obtain audit committee pre-approval for PIE audit clients.

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?

The conceptual framework of the Code already requires a firm to evaluate (R120.7) and then address (R120.10) threats that are not at an acceptable level by either eliminating the circumstance creating the threat or applying safeguards to reduce the threats to an acceptable level. Highlighting a threat that is typically at an

acceptable level, which the acceptance of a fee is generally considered to be, given the quality controls that firms are required to put in place, may dilute the value of the conceptual framework in those circumstances where threats are more likely to occur and more likely to not be at an acceptable level. Thus, we disagree with the proposed requirement to evaluate the threats to independence created by the fees proposed to the client at R410.4 because we believe such evaluation would already be required under R120.7 of the conceptual framework and R400.12 to the extent that a threat to independence related to such fees was identified.

- 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?**

We support providing examples of how the level of threats can be evaluated. However, we do not believe that requiring an independent committee which advises a firm on governance matters that might impact the firm's independence should be part of the Code. This type of requirement is better suited to legal or regulatory requirements, such as those in some jurisdictions where firms auditing PIE audit clients are required to have a supervisory board made up of external members.

- 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 that the audit firm should focus on establishing an audit fee that supports a quality audit. Audit fees are determined using judgment and consideration of many factors, including overall client risk, staff capacity, audit timing, required specialists etc. It is unclear to us how the prohibition of the singular consideration of NAS services provided to the audit client in establishing the audit fee would reduce threats to independence or favorably impact audit quality. In that same regard, because of the myriad other factors that may influence audit fees and the overall level of judgment applied in establishing audit fees, we believe compliance with this requirement would be virtually impossible to effectively operationalize and evidence.

- 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?

If the Board considers the fee levels of other legally separate firms within a network which are not involved in the audit of the audit client to impact the independence of the principal auditor, we suggest that application material to explain the rationale and linkage be added to the Code.

The last sentence of 410.10 A1 references “a perception that the firm or network firm focuses on the non-audit relationship,” which would seem to be akin to the reasonable and informed third party test. The last part of that sentence then states “which might create a threat to the auditor’s objectivity.” We do not agree that a perception would create a threat to the fundamental principles. The reasonable and informed third party test is a consideration made by the professional accountant or the firm, not the cause of a threat.

We suggest that the following be included as a factor at 410.10 A2: “The nature of the client, for example whether the client is a public interest entity.”

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?

For non-PIE audit clients, we do not support the proposal of a specific fee dependency benchmark. We believe the Code should remain principles-based, allowing the auditor and firm to apply the conceptual framework to evaluate and address threats to independence. We have concerns that establishment of a specific fee dependency benchmark will discourage the appropriate evaluation of a threat created by fee dependency and the application of appropriate safeguards when the benchmark in the requirement is not met. We suggest that the safeguards proposed in R410.14 could be incorporated into the list of potential safeguards in 410.13 A7 to acknowledge their possibility as an appropriate safeguard for non-PIE audit clients.

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 do not take exception to the proposed actions in paragraph R410.14.

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 do not take exception to the proposed action in paragraph R410.17.

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?

For PIE audit clients, we have concerns about the proposal requiring termination of the audit relationship if the fee dependency circumstance described in R410.17 continues for five consecutive years. We believe this requirement in certain cases could impact audit quality, especially where TCWG have a better line of sight to auditor independence concerns and can make informed decisions on the need for a firm to rotate off the audit engagement.

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

With acknowledgement of our concern regarding the underlying requirement to terminate the audit relationship, we have no opposition to the exception provided in paragraph R420.20, but believe it may not be practical to presume a regulatory or professional body would weigh in on such a matter.

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 do not agree with assigning the auditor the responsibility of publicly reporting fees. We believe transparency of fee-related information to stakeholders of audit clients is best accomplished by audit client management. Audit client management are best placed to disclose all audit fees paid and to provide proper context for fees paid, so that the information can be interpreted appropriately, especially in instances where the audit client is not required to publicly disclose its financial statements.

Inclusion of fees paid in the auditors' report may result in a misconception that the quality of the audit, or even the audit opinion itself, is influenced by the fees. We have concerns that requiring the auditors to be satisfied that specific fee-related information is publicly disclosed, or to disclose such fee-related information should the client fail to do so, creates a mechanism for the IESBA to indirectly place requirements on audit client management and TCWG, which is outside of the IESBA's remit. Accordingly, we believe the requirement for public disclosure should be placed on the audit client and promulgated by the appropriate regulators or financial reporting standard setters.

We further note in a situation where the audit client prefers that fee-related information not be publicly disclosed, the obligation placed on the auditor to disclose such information could create an adversarial relationship between the audit client and the auditor, potentially resulting in an intimidation threat.

If the requirement for disclosure by the audit firm is retained, we do not support the requirement for firms to disclose audit fees paid to non-network firms as we do not believe it would be appropriate when such fees have no bearing on the principal auditor's independence. We also question how the audit firm expressing the opinion on the financial statements would validate such information from non-network firms before public disclosure, as the audit firm would have no direct involvement in, or knowledge of such fees.

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 have no comments on this point.

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 have no comments on this point.

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?

We do not take exception to the proposed consequential and conforming amendments to Section 905 and other sections of the Code.

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?

We have no comments on this point.

Appendix B: Editorial comments on the proposals

410.4 A2 - The first bulleted point references “external review.” Please add an example or otherwise clarify what would be an example of an external review and how this review after the work is completed would impact the self-interest threat. In relation to the third bulleted point, we believe it would be difficult for an auditor to discern “the apparent emphasis [TCWG] and client management place on the quality of the audit and the overall level of fees,” particularly in relation to the overall level of fees.

410.5 A3 - The first bulleted point references an appropriate reviewer “who was not involved in the audit engagement.” We recommend using language consistent with the auditing standards, such as “who is not part of the engagement team,” to clarify the meaning of the safeguard.

410.13 A5 - We suggest that the wording of this paragraph be revised to conform to the wording of 410.13 A1, which notes an impact to the evaluation of the level of the self-interest threat instead of the creation of a self-interest threat, which has already been established.