



IESBA - International Ethics Standards
Board for Accountants
529 Fifth Avenue
New York, 10017
USA

5 May 2020

Comment letter relating to the IESBA's Proposed Revisions to the Fee-related Provisions of the Code

Dear Sirs,

1. The CEAOB appreciates the opportunity to comment on the IESBA's ("Board") consultation on *Proposed Revisions to the Fee-related Provisions of the Code* as issued in January 2020. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics is used in several European jurisdictions, but not in all of them. The CEAOB clearly sees an interest in enhancing the content of the Code, even for those jurisdictions that do not currently use it, as it constitutes a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the IESBA Code.

General comments

5. The CEAOB strongly supports the IESBA's effort to enhance the fee-related provisions of the Code. Our comments below only focus on the differences identified between the Exposure Draft (ED) and the European Audit Regulation and Directive that apply to the CEAOB members.

Definitions

6. We note that the fees-project is linked to two other projects, i.e. the Proposed Revisions to the Non-Assurance Services Provisions of the Code and the Definitions of Listed Entity





and Public Interest Entities (PIE). Regarding the definitions of Listed Entity and PIE, CEAOB members are bound by the definition of PIEs in the EU Regulation. We draw the Board's attention to the fact that, for us, it is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context in order to facilitate application of the IESBA Code in EU/EEA Member States.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

7. The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a "large proportion of fees". This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.
8. We understand that the scope of the Code is different from the EU Regulation, including the fees charged by the network firms, but not taking into account, for non-listed PIEs, the fees charged to the audit client's parent undertaking¹. In fact, in the EU regulation this calculation is performed at the level of the audit firm or the statutory auditor in relation to its audit client and we believe that it is the right level to address the self-interest threat in order to set a threshold beyond which the provision of NAS is not allowed. We invite the Board to reconsider ED paragraph 410.10.A1 to clarify the scope and consequences of the evaluation.

Total Fees – Fee dependency

9. ED paragraph R410.17 applies to audit clients that are PIEs and pursues the same goal as article 4 (3) of the EU Regulation N°537/2014, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Europe and could lead to confusion for auditors when deciding which provisions should be applied.
10. We hereafter list the four main differences we have identified between the Code and the EU Regulation, on which we ask the Board to further align the ED.
 - The reference period is different, two years for the Code and three years for the EU Regulation.
 - The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the Audit regulation for the calculation of the threshold only applies to the PIE itself

¹ The Code definition of audit client: "An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control."



and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation's scope but not the other and vice versa.

- In the Code, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard.
- The Code requires only one potential safeguard, being the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the review, where appropriate.

11. ED paragraph R410.18 addresses the joint audit situation and we do not believe that a joint audit can replace an engagement quality review.

12. ED paragraphs R.410.20 and R.410.24 (c) are not applicable in the EU context as, even in exceptional circumstances, the EU rules do not permit authorisation for an audit firm to continue as an auditor after 5 consecutive years if the total fees received each year from a PIE audit client exceed 15% of the total fees received by the firm.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Subgroup, if you have any questions on the content of this letter.

Yours faithfully,

Ralf Bose
Chairman