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April 28, 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

GAO's Response to the International Ethics Standards Board for Accountants' January 2020 Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code*

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions to the Fee-related Provisions of the Code*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States.¹ GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the *International Code of Ethics for Professional Accountants (Code)* and GAGAS.

We support the International Ethics Standards Board for Accountants' (IESBA) efforts to clarify that independence threats are created by fees paid for audit and assurance engagements. However, we believe that the Code could provide additional safeguards to address the self-interest and intimidation threats created by circumstances related to audit fees, such as the proportion of fees for services other than audit and fee dependency. While we agree that having an external review of the audit work could reduce the threats, we believe that the IESBA should consider providing additional safeguards to assist professional accountants in adhering to the Code. Alternatively, if the IESBA believes that an external review is the only acceptable safeguard, we suggest that the IESBA explicitly state that point. We believe that clarifying which safeguards are acceptable will help ensure that professional accountants that provide audit and assurance services maintain their independence.

In addition, the IESBA is seeking responses to a number of questions related to the proposed revisions. Our responses to the questions follow.

Specific Comments

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)?**

¹GAO, *Government Auditing Standards: 2018 Revision*, GAO-18-568G (Washington, D.C.: July 2018).

We 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).

- 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 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.

- 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 agree that the factors listed in paragraphs 410.4 A2 and 410.4 A3 are relevant to evaluating the level of threats created when fees are paid by the audit client. However, we note that the list includes

- conditions that are prohibited (dependency of the level of the fee on the outcome of the service and linkage between fees for the audit and those for other services),
- conditions that require further evaluation (relative size of fees for the audit compared to the fees for other services),
- conditions that may reduce the level of the threat (involvement of those charged with governance), and
- conditions that may be safeguards (an external review of the quality of the firm's audit work).

We encourage the IESBA to consider whether grouping these conditions in one list may be confusing for users of the Code.

We agree that the existence of an independent committee that advises the firm on governance matters might affect the firm's independence. We do not believe that providing this as an example would require firms to adopt this type of governance structure.

We suggest that the IESBA consider whether users of the Code would understand the IESBA's position that compliance with professional standards assists in mitigating threats. Proposed paragraph 410.4 A3 notes that a quality management system might affect the evaluation of the threat. However, it does not make clear that a robust system of quality control may be a safeguard to reduce the self-interest threat and intimidation threats.

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 support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the firm or a network firm having provided services other than audit to the audit client.

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?**

We support the guidance that the level of the threat might be affected when a large proportion of fees that the firm or network firms charge to an audit client is generated by providing services other than audit to the client. We agree that the IESBA should take a principle-based approach and allow firms to evaluate the level of threat created by the proportion of fees for services rather than setting a fee cap or using a threshold to trigger a reevaluation of threats to independence. We also support the factors listed in paragraph 410.10 A2 that are relevant to evaluating the level of such threats. While we agree with the safeguard listed in paragraph 410.10 A3, we encourage the IESBA to provide additional examples of safeguards that would address the independence threats. We believe that additional safeguards will help firms implement the Code more effectively.

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?**

We believe that the IESBA should take a principles-based approach for evaluating threats caused by possible fee dependency on non-PIE audit clients. In our view, a principles-based approach allows for firms to evaluate and reduce threats to an acceptable level.

- 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 support the proposed safeguards in paragraph R410.14. We agree that having a professional accountant who is not a member of the firm review the audit work could reduce the threats created by fee dependency. However, we suggest that the IESBA provide additional examples of safeguards that could reduce the threats.

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?**

We support the proposed safeguard in paragraph R410.17. We agree that having a professional accountant who is not a member of the firm review the audit work prior to the issuance of the audit opinion could reduce the threats created by fee dependency. We also agree that a post-issuance review would not be an effective safeguard. However, as noted previously, we suggest that the IESBA provide additional examples of safeguards that could reduce the threats.

- 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 are not providing comments in response to this question.

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

We are not providing comments in response to this question.

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 believe jurisdictional regulators should administer the fee disclosure requirements for PIE audit clients.

- 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?

As noted in our response to question 11, we believe that the transparency of fee-related information should be the purview of jurisdictional regulators.

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.**

We are not providing comments in response to this question.

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?**

We support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as provided in this exposure draft. We believe that the IESBA could further clarify paragraph 905.10 A2 to note that the independence threat created when the assurance client is not responsible for negotiating or paying the fees relates to ensuring independence from the assurance client and not the party paying the fees.

We would generally 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?

We have not identified any other areas within the Code that may warrant conforming changes.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin
Director
Financial Management and Assurance