Revised Fee-related Provisions

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Agenda

• Background

• Overview of Key Areas
  – Threats Created by Fees Paid by an Audit Client
  – Level of Audit Fees
  – Proportion of Fees
  – Fee-dependency
  – Enhanced Transparency
  – Conforming and Consequential Amendments

• Resources and support materials

• Q&A session
Fees Project Background

• Code provides strong foundation, but more work needed to strengthen International Independence Standards, especially for PIE audit clients

• Responsive to regulatory stakeholders’ and the PIOB’s concerns about fees charged by audit firms and other public interest considerations

• Informed by June 2018 Report on fees fact-finding

• Fees Project was closely coordinated with
  ─ IESBA’s Non-assurance Services (NAS) project
  ─ The International Auditing and Assurance Standards Board (IAASB)
Fees Project Background

- **Exposure Draft** on Fees was published for comments in January 2020
  - 64 comment letters from a range of stakeholders, including Monitoring Group members
- Approval of **Fees Final Pronouncement** in December 2020
  - Release after PIOB approval in April 2021
Different Approaches for PIE and Non-PIEs

• Different provisions for PIE audit clients and non-PIEs
  – Heightened stakeholder expectations for PIE audit clients
• IESBA currently exploring revisions to PIE definition
  – Anticipates finalizing PIE project by end of 2021
  – In relation to Fees project, the IESBA’s focus has been on establishing the principles (and requirements) that should apply to PIE audits (however defined)
Sections of the Code that Are Impacted

- Key changes to **Section 410** in Part 4A
- Conforming and consequential amendments:
  - Section 120, *The Conceptual Framework*
  - Section 270, *Pressure to Breach the Fundamental Principles*
  - Section 320, *Professional Appointments*
  - Section 330, *Fees and Other Types of Remuneration*
  - Section 400, *Applying the Conceptual Framework to Audit and Review Engagements*
  - Section 905, *Fees*

- Builds on revised and restructured Code
- Preserves “building blocks” approach
Key Changes to Fee-related Provisions

- Address threats created by fees paid by the audit client
- New provisions re: level of audit fees
- Address issues re proportion of fees paid for services other than audit to audit fees
- Enhanced existing provisions re: fee-dependency (for all audit clients)
- Promote transparency of fee-related information for PIE audit clients
IESBA did not attempt to regulate level of fees in the global Code → this is a firm’s business decision

- IESBA aimed at strengthening the guardrails around auditor independence

Raising awareness of *inherent self-interest (SI) threat* related to audit client payer model, when fees are negotiated with and paid by the audit client

- Not attempting to change the client-payer business model
Threats Created by Fees Paid by Audit Client (2)

- Firms to determine whether threats created by fees proposed to the audit client (either by the firm or network firms) are at an acceptable level
  - New guidance to assist firms in evaluating the level of the threats
  - Some proposed conforming amendments to Section 120
- Certain circumstances could impact the evaluation of level of the SI threat (e.g. high ratio of non-audit fees, overdue fees, fee-dependency, etc.)

See para. 410.4 A2 to 410.4 A5
Level of Audit Fees

- Level of audit fees is **only a factor** that could impact evaluation of level of threats created by fees paid by an audit client.

- *However*, changes emphasize importance of **audit fee as a standalone fee**
  - Prohibition for firms to allow provision of services other than audit to influence the level of the audit fee
  - Exception for cost savings achieved as a result of experience derived from provision of services other than audit

See para. 410.5 A1 to R410.7
• **No threshold/ratio** suggested as a cap or to re-evaluate threats

• IESBA acknowledged that a **large proportion** of fees for services other than audit to audit fees might create threats to independence

  ➢ Guidance to help firm determine what would constitute a large proportion in specific circumstances

See para. 410.11 A1 to 410.11 A3
Fee-Dependency on PIE Audit Clients (1)

- Extant Code includes a threshold for PIE audit clients at a firm level
  - 15 percent for 2 consecutive years
  - No changes to the threshold
- Only a **pre-issuance review** by a professional accountant outside of the firm could be capable of reducing the threats to an acceptable level
- The review is consistent with the objective of an engagement quality review

See para. R410.18
Fee-Dependency on PIE Audit Clients (2)

- IESBA was of the view that fee dependency on a PIE audit client cannot continue indefinitely
  - No safeguard capable of reducing the threats to an acceptable level

- **Requirements for firms to cease being the auditor if fee-dependency continues for 5 consecutive years**

- Being mindful of possible market-specific issues, there is an exception in special circumstances
  - Compelling reason for the firm to continue as auditor, and
  - Concurrence from a regulatory or professional body

*See para. R410.20 and R410.21*
Fee-Dependency on Non-PIE Audit Clients

• For non-PIE audit clients, adopt the PIE model of extant Code
  – Taking into account market specificities and IESBA project revisiting the definition of PIEs
• Inclusion of a threshold to create consistent approach
  – 30 percent in conjunction with 5 consecutive years
  – Pre or post issuance review by an external party (a professional accountant or a professional body) as actions to reduce threats to an acceptable level
• On balance, no exit clause and no enhanced transparency

See para. R410.15 and R410.16
Enhanced Transparency of Fee-Related Information

- Enhanced transparency will help inform stakeholders’ judgments about audit firm’s independence
- Disclosure of information to TCWG and to public regarding
  - Fees paid by the audit client (for audit and other services) to audit firm and network firms, and
  - Fee-dependency
- **Flexible approach** for firms to achieve such transparency
- Disclosure of information that is *essential from perspective of firm’s independence*

Applicable only to PIE audit clients

CLICK [HERE](#) FOR A 4-MINUTE VIDEO TO LEARN MORE
Enhanced Transparency of Fee-Related Information

Exception for certain related entities
- Focuses only on downstream related entities over which the client has direct or indirect control

Exception for controlled entities that are not involved in the consolidation
- Balanced approach – only include fees when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm’s independence

Exception to avoid duplication of fee-disclosure at group and single entity level
- If the parent entity is required to prepare f/s at a group and single entity level
- If there are wholly-owned subsidiaries in the group
Enhanced Communication with TCWG

- Providing basis for a **meaningful, two-way discussion** with TCWG in assessing the firm’s independence
  - Requirements to disclose to TCWG not only the figures regarding fees, but also the firm’s judgment on threats created
  - Guidance on other fee-related information that firms might consider for communication

*See para. 410.22 A1 to R410.28*
Public Disclosure of Fee-related Information

- IESBA aimed for the Code to promote **global transparency**
  - Acknowledges that fee-disclosure **would be best presented by the audit client**

- The firm first communicates with TCWG about the benefit of the disclosure to stakeholders
  - If the client still has not disclosed, the firm has to do so

- **Flexible approach for firms** regarding how to achieve transparency
  - Timely and accessible manner

*See para. 410.29 A1 to R410.32*
Public Disclosure by the Firm

- Examples in the Code for suitable ways for disclosure by the firm
- In line with IAASB’s approach regarding communication with external parties about the firm’s system of quality management in ISQM 1.
Consequential Amendments

- Changes proposed to Part 4A have implications for assurance engagements other than audit and review engagements in Part 4B.
- Special considerations:
  - Nature of assurance engagements, e.g.: limited in scope, for a narrow purpose and non-recurring.
  - Parties involved in an assurance engagement.
- Still, there is an inherent self-interest threat when fees for an assurance engagement are negotiated with and paid by the assurance client.
- No special provisions for PIEs.

See revised section 905.
IESBA is committed to supporting the adoption and implementation of the revised NAS and Fee-related provisions.

Resources now available:
- Bases for Conclusions
- Infographic
- YouTube videos

Coming Soon:
- Fact-sheets
- FAQs
- Webinars
- Articles

Access resources at: [http://www.ethicsboard.org/strengtheningIIS](http://www.ethicsboard.org/strengtheningIIS)
Revisions to Fee-related Provisions of the Code

Q&A Session