

## Fees – Proposed Revisions to Section 410

(Mark up from the September 18 version<sup>1</sup> of the IESBA agenda material)

### PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### SECTION 410

#### FEES

##### Introduction

- 410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 410.2 ~~Remuneration is a factor that commonly motivates behavior. Fees for both audit engagements and services other than audit might therefore influence a firm's compliance with the fundamental principles. When such fees are paid by the audit client, this creates self-interest and intimidation threats to independence which need to be evaluated and addressed in accordance with the conceptual framework. In addition to a possible self-interest threat to compliance with one or more of the fundamental principles as set out in Section 330, fees or other types of remuneration paid to a firm might create a self-interest or intimidation threat to independence.~~ This section sets out specific requirements and application material relevant to applying the conceptual framework relating to fees charged to audit clients.
- 410.3 ~~Where the relationship with the audit client is of a pro bono nature, there are no threats to independence with respect to fees. However, Section 330 is relevant in considering any threats to compliance with the fundamental principles that might be created.~~

#### Requirements and Application Material

##### General

- 410.3 A1 The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements prepared by the audit client. This requires the auditor to be independent from the client. Where, as is generally the case, fees are also negotiated with and paid by the client, this creates a self-interest threat and might create an intimidation threat to independence.
- 410.3 A2 ~~As noted in paragraph 410.2, the level of threats to independence, particularly independence in appearance, is generally greater for public interest entities. In this regard, the nature and level of fees might affect the perceptions of those charged with governance, investors and other stakeholders. When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence.~~ As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders~~these stakeholders~~, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.
- 410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements.

<sup>1</sup> The September 18, 2019 version of the IESBA agenda material includes changes proposed for IESBA members' consideration for the second Fees session on September 19, 2019.

### Evaluating Threats

**R410.4** Before a firm accepts an audit or other engagement for an audit client, the firm shall determine whether the threats to independence created by the fees proposed to the client are at an acceptable level. The firm shall also make such determination where appropriate during the period of the audit engagement if circumstances change.

410.4 A1 Factors that are relevant in evaluating the level of threats created when fees for an audit or other engagement are paid by the audit client include:

- ~~The operation of a system of quality management that provides the firm with reasonable assurance that the firm and its personnel fulfil their responsibilities in accordance with professional standards.~~
- Whether there is eExternal review of the quality of the firm's audit work.
- The level of the fees and tThe extent to which fees they have regard to the resources required, taking into account the firm's commercial and market priorities and position.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and audit-client management place on the quality of the audit and rather than the level of the fees.
- AnyThe linkage between fees for the audit and those for services other than audit, and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The significance of the client to the firm.
- The nature of the client, for example whether the client is a public interest entity.

410.4 A2 The consideration of the factors ~~identified~~ in paragraphs 120.12 A3 (particularly the existence of a quality management system designed and implemented by the firm in accordance with [proposed] ISQM 1) and 410.4 A1 in the evaluation of the threats might will often lead the firm to conclude that the threats are at an acceptable level.

410.4 A3 The requirements and application material that follow address circumstances where some of the ~~above~~ factors in paragraph 410.4 A1 need further consideration in evaluating whether the threats are at an acceptable level. For those circumstances, there are examples of additional factors that are relevant in evaluating the threats.

### **Level of Audit Fees**

410.5 A1 Determining the level of fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 In addition to the factors identified in paragraph 410.4 A1, factors that are relevant in evaluating the level of the threats created by the level of the audit fee when paid by the audit client include:

- ~~Policies and procedures adopted within the quality management system to provide reasonable assurance that sufficient resources are allocated to the audit regardless of the fee.~~
- The firm's commercial rationale for the audit fee.
- Whether there is a pressure applied by the client to reduce the audit fee.

410.5 A3 An example of an action that might be a safeguard to address such threats is having an appropriate reviewer who ~~did not take part~~ was not involved in the audit engagement review the work.

#### *Impact of Other Services Provided to an Audit Client*

410.~~65~~ A1 If a firm ~~agrees to provide audit services at a lower fee because the audit client engages or promises to~~ lowers the audit fee in the expectation that the audit client might engage the firm or a network firm for the provision supply of services other than audit, this ~~creates an~~ increases the level of the self-interest intimidation threat and might also create an intimidation self-interest threat.

**R410.~~76~~** A firm shall be satisfied that the provision by the firm or a network firm of services other than audit to an audit client does ~~did~~ not influence the level of the audit fee.

410.~~76~~ A1 The level of the audit fee ordinarily reflects a combination of factors, such as those identified in paragraph 410.22 A1. ~~These include the skills and experience of members of the audit team, the time spent commensurate with the scope and complexity of the audit, the cost of other resources expended in performing the audit, and the firm's competitive position in the market place. However, the provision of other services to the audit client is not an appropriate factor in determining the level of the audit fee. This is not intended to prevent a firm recognizing that there might be appropriate cost synergies should services other than audit be provided. However, should such synergies arise they may be reflected in the fees for the services other than audit and not in the audit fee.~~

410.7 A2 Paragraph R410.7 is not intended to prohibit proper cost savings that can be achieved as a result of providing services other than audit to the audit client.

#### **Contingent Fees**

410.~~87~~ A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

#### *Audit Engagements*

**R410.~~98~~** A firm expressing the opinion on the financial statements of an audit client or a network firm participating in a significant part of the audit shall not charge directly or indirectly a contingent fee to the client for an audit engagement unless:

(a) It is for a non-assurance service provided to the client;

(b) The fee receivable by the firm or the network firm is not material or expected to be material to such firm; and

(c) The outcome of the non-assurance service, and therefore the fee, is not dependent on a future or contemporary judgement related to the audit of a matter that is material to the financial statements.

#### *Assurance Services Provided to an Audit Client*

~~410.9 A1 Paragraph R905.7 in Part 4B Independence for Assurance Engagements Other than Audit and Review Engagements sets out a requirement for contingent fees for assurance services provided to an audit client.~~

#### *Non-assurance Services Provided to an Audit Client*

~~R410.10~~ A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

- ~~(a)~~ The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- ~~(b)~~ The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- ~~(c)~~ The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

410.940 A1 Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, at the level of the self-interest threat might still increase ~~be created~~.

410.940 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.940 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
- Obtaining an advance written agreement with the client on the basis of remuneration.

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

410.104 A1 When a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, the level of the self-interest threat might increase or an intimidation threat might be created. This is due to concerns about the potential loss of either the audit engagement or other services. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's objectivity.~~the risk of losing the engagements other than the audit creates self-interest and intimidation threats.~~

410.104 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The relationship to the audit client of the related entities for which the services other than audit are provided.
- The nature, scope and purposes of the services, including whether they are recurring services.
- The qualitative and quantitative significance of the client to the firm and to the network.
- The operating structure and the compensation arrangements of the firm and the network.

410.104 A3 An example of an action that might be a safeguard to address such self-interest or intimidation threats is having an appropriate reviewer who ~~was not involved~~ did not take part in the audit or the ~~service other than audit other engagements~~ review the relevant audit work.

#### Total Fees – Overdue Fees

410.11 A1 ~~The level of the self-interest threat might increase if fees payable by the audit client for the audit or services other than audit are overdue during the period of the audit engagement~~ A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

410.11 A2 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees s to the firm.
- The firm's assessment of the ability and willingness of the client to settle the overdue fees s.

410.11 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who ~~was not involved~~ did not take part in the audit engagement review the audit work ~~performed~~.

**R410.12** When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

#### Total Fees – ~~Fee Dependency~~ Relative Size

##### All Audit Clients

410.132 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on ~~that client~~ and concern about the potential loss of fees from audit and other services from that losing the client ~~increase the level of the~~ create self-interest threat and create an intimidation threats.

410.132 A2 In calculating the total fees of the firm ~~in this section~~, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.132 A3 Factors that are relevant in evaluating the level of such threats include:

- The operating structure of the firm.
- The qualitative and quantitative significance of the audit client to the firm.
- Whether the firm is expected to expand such that the significance of the client is likely to reduce.

410.132 A4 Examples of actions that might be safeguards to address such ~~self-interest and intimidation~~ threats include:

- Increasing the client base ~~in the firm of the firm~~ to reduce dependence on the audit client.
- Increasing the extent of services provided to other clients.

- Reducing the extent of services other than audit provided to the client.
- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.

410.132 A5 Self-interest or intimidation threats are ~~also~~ created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.132 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.132 A7 Examples of actions that might be safeguards to address such self-interest and intimidation threats include:

- Increasing the client base of the partner or the office to reduce dependence on the audit client.
- Increasing the extent of services provided by the partner or the office to other clients.
- Reducing the extent of services other than audit provided by the partner or office to the ~~audit~~ client.
- Ensuring that the compensation of the partner is not significantly dependent on the fees generated from the client.
- Having an appropriate reviewer who ~~did not take part~~ was not involved in the audit engagement review the audit work.

Audit Clients that are Not Public Interest Entities

**R410.143** When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm ~~for five consecutive years~~, the firm shall determine whether either of the following actions might be a safeguard to address the threats created, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, ~~or a professional body~~ review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion being issued on the sixth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

**R410.154** If the total fees described in paragraph R410.143 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.143 applied to the relevant year's engagement might be a safeguard to address the threats ~~created~~ created by the total fees received by the firm from the client, and if so, apply it.

**R410.165** ~~In the case of a joint audit where the circumstances addressed by paragraph R410.13 apply to only one of the firms expressing the audit opinion,~~ When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the ~~joint~~ audit may be regarded each year as an action equivalent to that in paragraph R410.146 (a), if:

- (a) The circumstances addressed by paragraph R410.14 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

**R410.176** When for each of two consecutive years the total fees from an audit client that is a public interest entity and its related entities represent, or are likely to represent, more than 15% of the total fees received by the firm ~~for two consecutive years~~, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") is a safeguard to address the threat, and if so, apply it.

**R410.187** ~~In the case of a joint audit where the circumstances addressed by paragraph R410.16 apply to only one of the firms expressing the audit opinion, When two or more firms are engaged to conduct an audit of the client's financial statements,~~ the involvement of the other firm in the ~~joint~~ audit may be regarded each year as an action equivalent to that in paragraph R410.176, if:

(a) The circumstances addressed by paragraph R410.17 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

**R410.198** Subject to paragraph R410.2049, if the circumstances described in paragraph R410.176 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

**R410.2049** As an exception to paragraph R410.198, the firm may continue to be the auditor after five consecutive years if there is a ~~are~~ compelling reasons ~~s~~ to do so having regard to the public interest, provided that:

(a) The firm consults with the ~~relevant~~ professional body or an independent regulatory body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and

(b) Before ~~After~~ the audit opinion on the ~~sixth~~<sup>fifth</sup> and any subsequent year's financial statements ~~is has been~~ issued, the firm engages a professional accountant who is not a member of the firm expressing the opinion on the financial statements to perform a pre-issuance review ~~an engagement quality review of that engagement; or a professional body to perform a review of that engagement that is equivalent to an engagement quality review.~~

410.2049 A1 A factor which might give rise to a ~~are~~ compelling reasons ~~s~~ is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

## Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

### *Communication About Fee-related Information with Those Charged with Governance*

410.21 A1 Clear communication with those charged with governance about the level of the audit fee and how it was determined provides factual information that assists them in assessing the firm's independence in fulfillment of their responsibilities. Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists them in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

## Audit Fees

**R410.223** The firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity ~~regarding~~:

- (a) The ~~level amount~~ of the fee for the audit of the financial statements, ~~and the factors or other relevant information that the firm took into account in determining it~~;
- (b) Any fees for the audit of special purpose financial statements and review engagements; and
- (c) Whether the threats created by the level of the audit fees are at an acceptable level and any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.223 A12 ~~The objective of such communication is to provide appropriate background and context regarding the audit fee. Such communication might therefore include matters such as: Examples of relevant audit fee information that the firm might discuss with those charged with governance include:~~

- Considerations affecting the level of the fee such as:
  - ~~The scale, complexity and geographic spread of the audit client's operations.~~
  - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
  - ~~The need to utilize specialist resources. The cost of other resources utilized or expended in performing the audit.~~
  - The quality of record keeping and processes for financial statements preparation.
- In the case of a group audit, the major elements of the audit fee, including the level of the fee for the audit of the financial statements which is paid or payable to each of the firm, network firms, or other audit firms for undertaking the audit.
- Any adjustments to the fee quoted or charged during the ~~period course~~ of the audit, and the reasons for any such adjustments.
- Any changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.223 A23 The firm is encouraged to provide such information as soon as practicable, preferably as part of the planning stage of the audit, with any proposed adjustments communicated as they are determined.

## Fees for Services Other than Audit

**R410.234** The firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity ~~regarding~~:

- (a) ~~The~~ fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services other than audit to the audit client (which for this purpose shall include only related entities over which the audit client has direct or indirect control); ~~and -~~
- (b) Where the firm has identified that there is an increase in the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of such fees relative to the audit fee:
  - (i) Whether such threats are at an acceptable level; and

(ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.234 A1 The objective of such communication is to provide appropriate background and context regarding the fees for services other than audit. Such communication might therefore include matters such as: Examples of information about fees that the firm might discuss with those charged with governance include:

- The amount of fees from services other than audit that are required by laws and regulations.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees. (Ref.: Para [Reference to be added to the application material arising from the NAS project regarding the examples to the processes the firm and those charged with governance may develop to obtain concurrence for the provision of non-assurance services])
- The proportion of fees referred to in paragraph R410.23(a) to the audit fee charged by the firm or network firms for services other than audit to the audit fee.

~~R410.25~~ ~~If the firm determines that there is a self-interest or intimidation threat to independence created by the proportion of the fees charged for the provision by the firm or a network firm of services other than audit relative to the audit fee, the firm shall communicate with those charged with governance of an audit client that is a public interest entity regarding:~~

- ~~(a) Whether the threats created by the provision of such services are at an acceptable level; and~~
- ~~(b) The safeguards that the firm has taken or intends to take to reduce such threats to an acceptable level.~~

#### Fee Dependency

**R410.246** Where the total fees from an audit client that is a public interest entity and its related entities represent or are likely to represent more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance ~~regarding:~~

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.176); and
- (c) Any proposal to continue as the auditor under paragraph R410.2019.

#### Public Disclosure of Fee-related Information

**R410.257** The firm shall be satisfied that the following information is publicly disclosed in a timely and accessible manner, ~~providing appropriate accessibility:~~

- (a) Subject to paragraph R410.26, the level amount of the fee for the audit of the financial statements;
- (b) The amount of fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services to the audit client (which, for this purpose shall include only related entities over which the ~~audit~~ client has direct or indirect control) other than as disclosed under (a); and
- (c) If applicable, the fact that the total fees received by the firm from the audit client and its

related entities represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

The requirements in subparagraphs (a) to (c) above ~~may shall~~ be met by compliance with laws and regulations which substantively satisfy the corresponding requirements.

410.257 A1 The fees disclosed usually reflect the fees paid or estimated to be paid for the services based on the information available at the time of the disclosure. The fees paid or estimated to be paid for the audit engagement include all such fees paid or payable to firms in relation to the audit work performed on which the audit opinion is based. In the case of a group audit, this would include the actual or estimated cost of work carried out by any component auditor at the request direction of the group engagement partner as set out in ISA 600, ~~Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)~~.

410.257 A2 Examples of circumstances when compliance with laws and regulations ~~which~~ would not substantively satisfy paragraph R410.257 include:

- ~~Excluding, i~~ in the case of a group audit, excluding fees charged by any component auditors carrying out work at the request direction of the group engagement partner.
- In the case of disclosure of Excluding fees for services other than audit, excluding fees for services provided by network firms to the audit client and related entities over which the client has direct or indirect control.

410.257 A3 In some circumstances, the audit client might agree to disclose such information, for example in its financial statements or annual report, ~~including any specific public report of those charged with governance on their assessment of the firm's independence~~. Otherwise, the firm might consider other suitable locations, such as the proxy statement or the audit report for such disclosure.

410.257 A4 If the firm discloses the information required by paragraph R410.257 in the audit report, it would be appropriate to do so as part of the auditor's other reporting responsibilities in accordance with ISA 700 (Revised). ~~{Placeholder on appropriate reference will be added subject to agreement with IAASB on suitable reference to where in the audit report firms should make the disclosure}~~.

410.257 A5 The firm might also discuss with the client if disclosure of other information relating to fees might enhance the ~~users~~reader's understanding. This might include matters such as: Examples of such information include:

- Comparative information for the prior year's fees for audit and services other than audit.
- In the case of a group audit, the major elements of the audit fee, including the level of the fee for the audit of the financial statements which is paid or payable to each of the firm, network firms, or other audit firms for undertaking the audit.
- The Nature of services provided other than audit and their associated fees.
- Safeguards applied when the total fees from the client represent or are likely to represent 15% of the total fees received by the firm.

410.257 A6 The disclosure is regarded as ~~appropriately~~ accessible if the information required by paragraph R410.257 is readily available for any stakeholder in a manner that stakeholders are specifically informed about or the firm has reason to believe that stakeholders know about.

**R410.26** Where the audit client does not make the disclosures specified in R410.25 and the firm is not able to obtain all the relevant information concerning the fee for the audit of the financial statements from a component auditor referred to in paragraph 410.25 A1, the firm shall be satisfied that that fact and the related circumstances have been disclosed.

*Considerations for Review Clients*

**R410.27~~28~~** This section sets out requirements for firms to communicate fee-related information of an audit client that is a public interest entity and be satisfied that such information is publicly disclosed. As an exception to those requirements, in the circumstance where a review client is not also an audit client, the firm may determine not to communicate or pursue disclosure of such information. (~~Ref: Para R410.23 to R410.27~~)