Fees – Turnaround (Selected Issues)

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Threats Created by Fees Paid by an Audit Client

• Questions whether the Task Force (TF) considered the following comments from IOSCO:
  1. Include a reference to the involvement of TCWG in appointing the auditor and agreeing fees;
  2. Delete the statement that the payment of fees by the audit client “is a generally recognized practice and accepted by intended users of financial statements”

→ it could be seen as supporting behaviors that potentially enhance threats to the auditor's independence

• The TF considered the comments and concluded that:
  1. Proposals acknowledge, as a relevant factor in evaluating the level of threat created by the audit client payer model, the involvement of TCWG in appointing the auditor and agreeing fees
  2. The statement about fees paid by the audit client is in line with current long-standing practice

Para. 410.4 A3
Impact of Other Services Provided to the Audit Client (1)

- Impact of Other Services Provided to an Audit Client

R410.6 → Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

- Comments regarding the enforceability of this requirement
  - There are many factors to consider when determining fees
  - How can firms document their compliance?

- Task Force believes the requirement sets out a clear principle
  - Aims at addressing a behavioral issue
  - ‘influenced’ is used elsewhere in the Code

- Firms can develop their own policies, including those on documentation, to demonstrate compliance
Impact of Other Services Provided to the Audit Client (2)

R410.7 → As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings that are achievable as a result of experience derived from the provision of services other than audit to an audit client.

• Question whether the exception is relevant and necessary given the prohibitions arising from the NAS Project in case of PIE audit clients

• Comments that the exception can have unintended consequences when firms are evaluating the possible cost-savings achieved by the provision of other services

• The requirement is relevant to all audit clients, not only PIEs
  – TF believes it is important to allow firms to take into account the cost-savings achieved for the audit as a result of the provision of previous services
    • Based on the Drafting Guidelines, the permission (“may”) to deviate from R410.6 is an exception to the requirement and also a requirement

• TF proposes above revision to address concerns regarding the firm’s objectivity when evaluating cost savings to the audit fee
External Review Performed as a Safeguard

Review of the audit work performed by an appropriate reviewer

- Example of a safeguard throughout the International Independence Standards

Review of the audit work performed by a PA outside of the firm

- A proposed action as a safeguard to reduce threats created in the case of fee dependency on a non-PIE audit client

Engagement Quality Review performed by a PA outside of the firm

- An action - in the extant Code and in the current proposal – as a safeguard to reduce the threats created in the case of fee dependency on a PIE audit client

- The extant Code and the proposal provide a flexible approach re external review

- The objective of the review is to have the audit work appropriately reviewed → The scope and the nature of the review is determined by reviewer in the light of the objective of the review

- The extant Code requires an EQR or a review equivalent to an EQR in the case of PIE audit client

- An FAQ will provide details about the nature of the review and the reviewer
Public Disclosure of Fee-related Information of PIEs (1)

Issue of Confidentiality

• Concerns that disclosure of client’s fee-related information by the firm could raise issues of confidentiality

TF Response

• Part 1 of the Code (para 114.1 A1) specifies circumstances “where PAs are or might be required to disclose confidential information or when such disclosure might be appropriate”
  – If there is a professional duty or right to disclose, including to comply with technical and professional standards, such as ethics requirement
    • If not prohibited by law or regulation
  • If laws or regulation does not allow disclosure of the client’s fee-related information → based on para R100.3, law or regulation prevails, and no such disclosure can be made
Public Disclosure of Fee-related Information of PIEs (2)

Location of Fee Disclosure

- Comment that current proposals could lead to inconsistent ways of communication
  - Disclosure of some information by the client, some by the firm
  - Location of disclosure by the firm can vary from client to client

TF Response

- The primary focus is to achieve disclosure by the client
- Based on comments provided to the ED, the TF decided to include more examples of the location for the firm’s disclosure, apart from the audit report and aligned to the IAASB’s proposals re. external communication
  - The firm can determine the best way for targeted communications with stakeholders, having regard to the timing and accessibility of the information to stakeholders
Private Equity Complexes

• In case of private equity complexes
  – Some national laws and regulations (e.g. SEC rules) do not require disclosure of fee-related information of controlled entities that are not consolidated within the financial statements of the PIE
• TF plans to reach out to National Standard Setters
  → To get information about the scope of their disclosure requirements
  → To better understand the rationale behind the relevant regulations
• Coordinated proposals with NAS TF
Any questions or suggestions regarding other proposed changes in **Agenda Item 5-E**?

Are there any other changes needed?
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