

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



EFFECTIVE DATE
DECEMBER 2022

Different Approaches for PIE and Non-PIEs

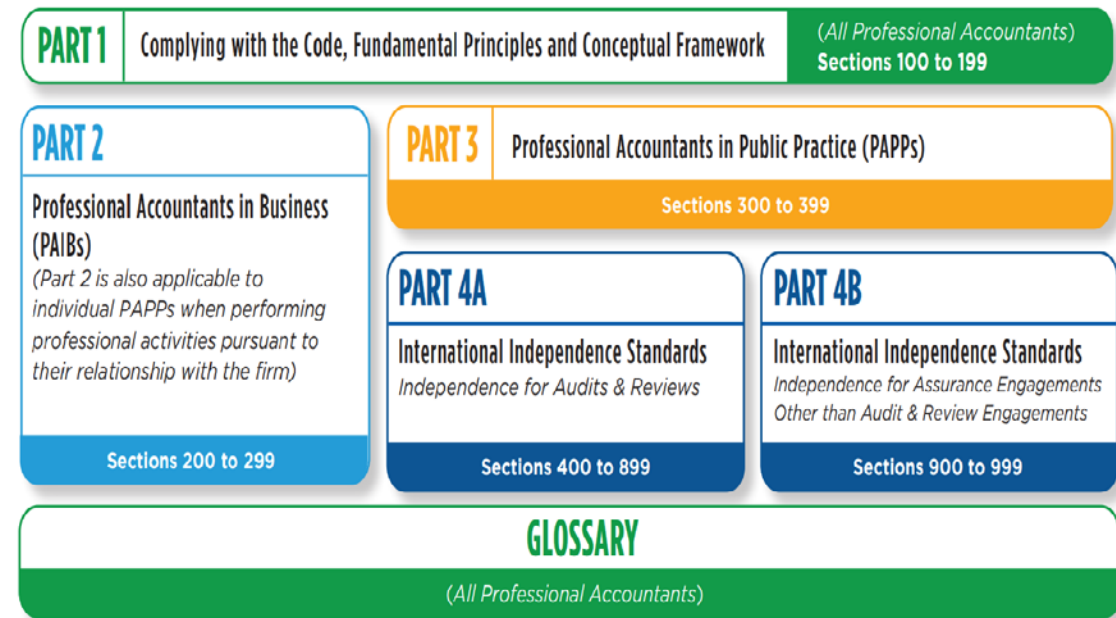
- Different provisions for PIE audit clients and non-PIEs
 - Heightened stakeholder expectations for PIE audit clients
- IESBA currently exploring revisions to PIE definition
 - Anticipates finalizing PIE project by end of 2021
 - In relation to Fees project, the IESBA's focus has been on establishing 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



CLICK [HERE](#) TO LEARN MORE ABOUT THE 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

Threats Created by Fees Paid by Audit Client (1)

- 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



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See para. 410.4 A1

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

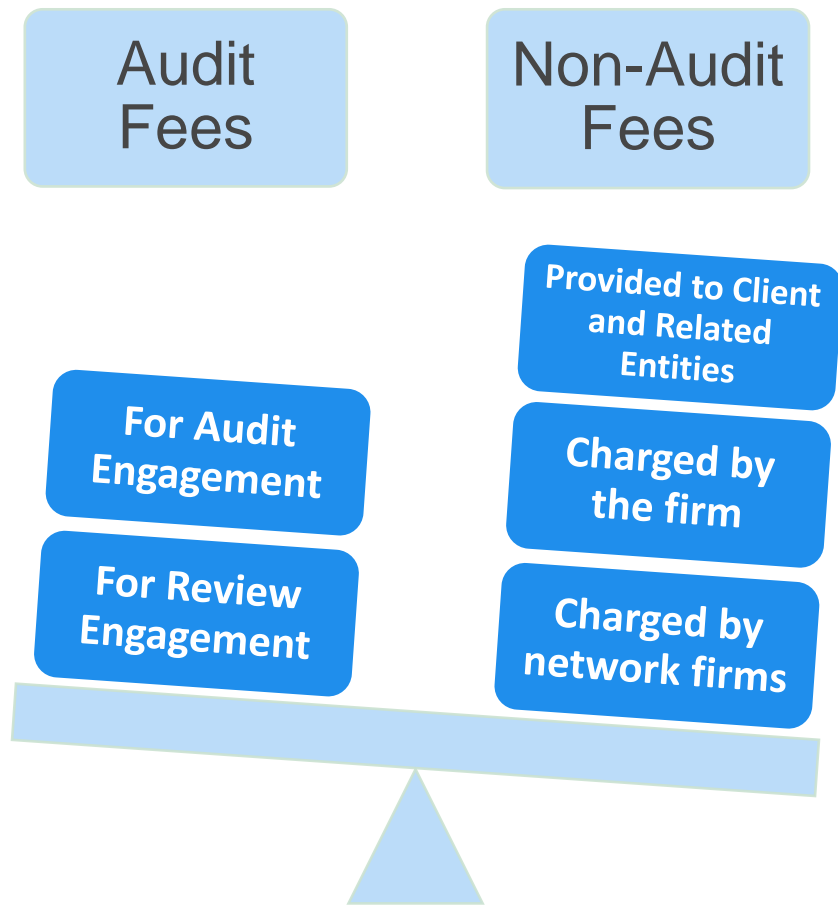
- Level of audit fees is **only a factor** that could impact evaluation of level of threats created by fees paid by an audit client
- *However*, changes emphasize importance of **audit fee as a standalone fee**
 - Prohibition for firms to allow provision of services other than audit to influence the level of the audit fee
 - Exception for cost savings achieved as a result of experience derived from provision of services other than audit



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See para. 410.5 A1 to R410.7

Proportion of Fees



- **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

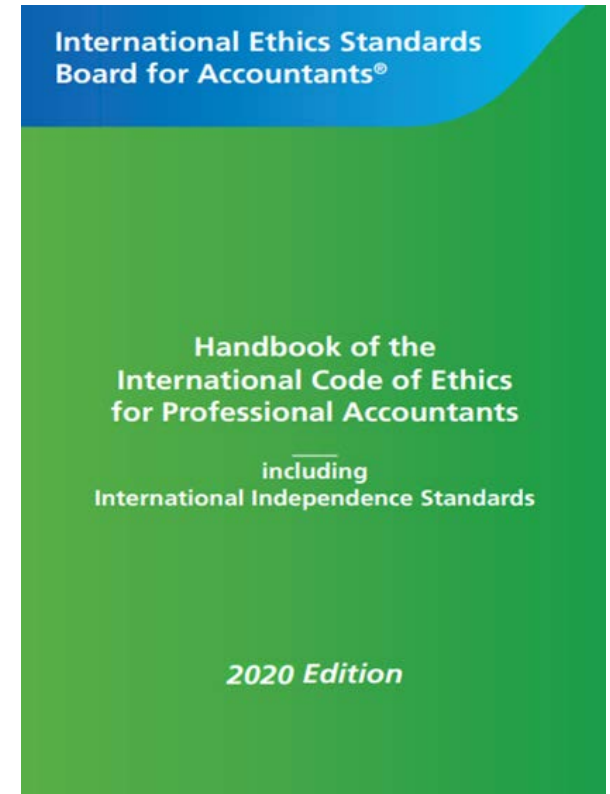


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See para. 410.11 A1 to 410.11 A3

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



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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



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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.



Firm's website

Firm's
transparency
report

Audit Quality
report

Targeted
communication
to specific
stakeholders

Audit report

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

STRENGTHENING INTERNATIONAL INDEPENDENCE STANDARDS

Revised Non-Assurance Services and Fee-related Provisions

- 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>

Revisions to Fee-related Provisions of the Code



Q&A Session



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