

POSITION PAPER ON FEE-RELATED PROVISIONS OF THE INTERNATIONAL ETHICS STANDARDS BOARD (IESBA) CODE

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A. BACKGROUND

This paper highlights the revisions to the fee-related provisions of the IESBA code, specifically under the heading “Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities”, as well as application guidance regarding the revisions. These revisions are effective for audits of financial statements for periods beginning on or after December 15, 2022. The revisions to the code from the IESBA, along with Frequently Asked Questions (FAQs) published by the IESBA can be found in the links below.

- Link to the Code: <https://www.ethicsboard.org/publications/final-pronouncement-revisions-fee-related-provisions-code>
- FAQs relating to the Code: <https://www.ethicsboard.org/publications/iesba-staff-qa-revised-fee-related-provisions-code>

B. EXTRACTS FROM THE REVISIONS TO THE CODE

1. Communication About Fee-related Information with Those Charged with Governance

R410.22 A1

Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists 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.

2. Fees for the Audit of the Financial Statements

R410.23

Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- a) Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and
- b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

R410.24

As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- b) The firm or a network firm expresses an opinion on those group financial statements.

3. Fees for Other Services

R410.25

Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and
- b) As set out in paragraph R410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than audit 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.

4. Public Disclosure of Fee-Related Information

R410.29 A1

In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30

If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity:

- a) The benefit to the client's stakeholders making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

R410.30 A1

Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- a) Comparative information of the prior year's fees for audit and services other than audit.
- b) The nature of services and their associated fees as disclosed under paragraph R410.31(b).

- c) Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31

After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;
- c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- d) If applicable, the fact that the total fees received by the firm from the audit client 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.

R410.31 A3

When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- a) On the firm's website.
- b) In the firm's transparency report.
- c) In an audit quality report.
- d) Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- e) In the auditor's report.

R410.32

As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - i. The entity is consolidated into group financial statements prepared by that other public interest entity; and
 - ii. The firm or a network firm expresses an opinion on those group financial statements.

5. Considerations for Review Clients

R410.33

This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

C. APPLICATION GUIDANCE

These revisions apply to audit clients that are Public Interest Entities (PIEs) with periods beginning on or after December 15, 2022. The revisions should be viewed from two perspectives as follows:

1. Communication by the firm of fee-related information to those charged with governance.

This can be facilitated during the audit team's presentation to the audit committee at either the planning stage or the wrap up stage

2. Public disclosure of fee-related information.

As outlined above, fee-related information should be disclosed to the public by the audit client. If this is not done by the audit client, the firm must disclose the fee-related information to the public.