

Fees – Proposed Revisions to Part 4A of the Code (Mark-up from June 2019 IESBA Agenda Material¹)

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 Fees or other types of remuneration are commonly a significant driver of behavior. In the context of an audit engagement, fees (for both audit engagements and services other than audit) can influence independence of mind and the level of these fees can also adversely impact perceptions of independence from the perspective of a reasonable and informed third party. Therefore, when fees are paid to the firm by the audit client they create threats to independence. The type and level of threat will depend on the nature and level of fees or other types of remuneration. The level of threats to independence, particularly independence in appearance, is generally greater for public interest entities because they have a large number and wide range of stakeholders. However, because a firm is required to be independent when performing audit engagements and have in place a system of quality management that is designed, among other matters, to provide it with reasonable assurance in relation to compliance with independence requirements, threats created when fees are paid by an audit client to the firm will often be at an acceptable level. ~~The nature and level of fees or other types of remuneration derived from an audit client 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 in such circumstances.

Changes to Introductory Paragraphs

- Changes to *Paragraph 410.2* are intended to clarify the link between the auditor's independence and the fees that are paid by an audit client to the firm.

Requirements and Application Material

General

- 410.3 A1 Determining the level of fees to be charged to fees for an audit client, whether for audit or other services, is a business decision of the firm taking into account all the facts and circumstances relevant to that specific engagement, including the requirements of the professional standards. ~~In this context, this section establishes requirements and application material for firms to address in considering facts and circumstances that could influence the level of fees quoted or charged to an audit client, and which might create threats to independence.~~

Nature and Level of Audit Fees

All Audit Clients

- ~~410.4 A1 In this section, audit fees consist of all types and nature of payments quoted or charged by the~~

¹ [Agenda Item 3B - Fees – Proposed Revisions to the Code Arising from the Fees Project \(Clean Version\)](#)

~~firm for performing the audit engagement, including any adjustments and variations to amounts originally proposed.~~

Level of Audit Fees

R410.45 A firm shall be satisfied prior to the engagement partner signing the audit report that the level of audit fees did not compromise the firm's independence and hence its ability to perform the audit in compliance with the fundamental principles, including in accordance with professional standards~~affect the firm's ability to perform the audit in accordance with professional standards.~~

410.45 A1 The IAASB's International Standards establish the responsibilities for the firm, network firm and the engagement partner with respect to the audit. In particular, irrespective of the fees quoted or charged, [proposed] ISQM 1 requires the firm to establish a system of quality management that addresses appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including human resources, technological resources, and intellectual resources. In addition, [proposed] ISA 220 (Revised) requires the engagement partner to determine that sufficient and appropriate resources are assigned or made available to perform the audit engagement.~~With respect to the audit engagement, the engagement partner is responsible for ensuring that there are sufficient and appropriate resources assigned or made available to perform the audit engagement, irrespective of the fees quoted or charged.~~

Impact of Other Services Provided to an Audit Client

410.5 A1 ~~If a firm agrees to provide audit services at a lower fee because the audit client engages or promises to engage the firm or a network firm for the supply of services other than audit, this creates an intimidation threat and might create a self-interest threat.~~

R410.6 The firm shall be satisfied that the provision ~~, or possible provision,~~ of services other than audit to an audit client ~~d~~ides not influence the level of the audit fees.

410.6 A1 The level of audit fees ordinarily reflects a combination of factors. These include the skills and experience of members of the audit team, the personnel and the time spent commensurate with the scope and complexity of the audit, and the cost of other resources expended in performing the audit, and the firm's competitive position in the market place. The provision of other services to the audit client is not an appropriate factor in determining the level of the audit fee ~~The audit fee should be determined on the assumption that no other services are provided to the audit client.~~ This is not intended to prevent a firm recognizing that there might ~~may~~ be appropriate cost synergies should such services other than audit be provided, ~~but~~ However, should such synergies arise they may ~~should~~ be reflected in the fees for the services other than audit and not in the audit fee.

Contingent Audit Fees

~~**R410.7** A firm shall not.....~~

~~(.....)~~

~~Audit Clients that are Public Interest Entities~~

~~410.8 A1 The level of audit fees for an audit client that is a public interest entity.....~~

~~(.....)~~

Changes to the "Nature and Level of Audit Fees"

- The previously suggested definition of audit fees is deleted. In Section 410, audit fees are generally referred to as fees charged, unless there is a reason to involve fees quoted, or to highlight adjustments

as well (see paragraph 410.23 A2).

- In *paragraph 410.4 A1*, the reference to requirements of relevant auditing standards is aligned to the proposed text in the Exposure Draft of ISQM 1 and ISA 220 (Revised).
- *Paragraph 410.5 A1* includes new application material describing the threats created when firms agree to lower audit fees in order to be engaged for provision of other services with the audit client (“low balling” of audit fees). The requirement in *paragraph R410.6* is intended to address such threats.
- Requirements and application material relevant to transparency of level of audit fees have been moved to the new subsection on “Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities”.

Contingent Fees

410.7 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 ~~quoted or~~ 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 Engagement

R410.78 A firm shall not ~~quote or~~ charge directly or indirectly a contingent fee for an audit engagement.

Assurance Services Provided to an Audit Client

410.9 A1 Paragraphs ~~R905.7 905.6 A1 to 905.9 A3~~ in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements* sets out a requirements ~~and application material~~ for contingent fees for an assurance service provided to client that is also an audit client.

Non-Assurance Services Provided to an Audit Client

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

- (a) The fee is quoted or 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 quoted or 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.

410.10 A1 ~~Paragraphs R410.7 and R410.13 preclude a firm or, as applicable, a network firm from entering into certain contingent fee arrangements with an audit client.~~ Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, a self-interest threat might still be created.

410.10 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.

410.10 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.

Reinstated heading on “Contingent Fees”

- The Task Force reinstated the subheading of the Extant Code on “Contingent Fees”, suggested no significant amendments, only the reordering of the subheading, to better reflect the new structure of Section 410.
- This Section includes provisions relating to audit fees and fees for services other than audit paid to an audit client, including fees for assurance and non assurance services. Part 4 B sets out a requirement relating to contingent fees for assurance engagement provided to assurance clients. *Paragraph 410. 9 A1* clarifies that firms shall also comply with this requirement when fees for an assurance engagement are paid to an audit client.
- In line with the Drafting Guidelines reference to prohibitions of the Code (extant wording) in *paragraph 410.10 A1* is deleted

~~Nature and Level of Fees for Services Other than Audit from an Audit Client~~

~~Contingent Fees for Services Other than Audit from an Audit Client~~

~~Non-Assurance Services Provided to an Audit Client~~

~~**R410.13**— A firm or network firm shall not quote or charge (.....)~~

~~(.....)~~

~~Communication with Those with Charged with Governance Relating to Fees for Services Other than Audit~~

~~410.15 A1— Paragraphs.....~~

~~(.....)~~

Total Fees - Ratio of Audit Fees and Fees for Services Other than Audit

~~Ratio of Audit Fees and Fees for Services Other than Audit~~

~~All Audit Clients~~

410.1147 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 audit client, ~~the dependence on that client~~ and the risk of losing the engagements, other than the audit, create a self-interest or intimidation threat.

410.1147 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 purpose of the service including whether they are recurring services.
- The qualitative and quantitative significance ~~The significance~~ of the client qualitatively and quantitatively to the firm.
- The operating structure and the compensation arrangements of the firm and the network.

410.1147 A3 An example of action that might a be safeguard to address such self-interest or intimidation threat is having an appropriate reviewer who did not take part in the audit or the other engagements review the relevant audit work.

~~Audit Clients that are Public Interest Entities~~

~~R410.18~~—When a firm provides services other than audit to an audited entity that is a public interest entity, the firm shall communicate to those charged with governance the ratio of audit fees, and total fees for services other than audit charged during the period covered by the financial statements by the firm to the audited entity and the entities over which the audited entity has direct or indirect control.

~~R410.19~~—If for three consecutive years the total fees for services other than audit charged by the firm to an audited entity that is a public interest entity and to entities over which the audited entity has direct or indirect control exceeds 70% of the average of the last three years' fees for the audit, the firm shall:

- ~~(a)~~—Disclose to those charged with governance the fact that total fees for the services other than audit from an audited entity and entities over which the audited entity has direct or indirect control has exceeded 70% of the average of the last three years' fees received from that audited entity for audit;
- ~~(b)~~—Discuss with those charged with governance whether prior to the audit opinion being issued on the third year's financial statements an engagement quality review of that engagement performed by a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a review of that engagement that is equivalent to an engagement quality review performed by a professional body, ("a pre-issuance review") might be a safeguard to address the threat and if so, apply it.
- ~~(c)~~—Disclose publicly in the audit report the fact that total fees for the services other than audit from an audited entity and entities over which the audited entity has direct or indirect control has exceeded 70% of the average of the last three years' fees received from that audited entity for audit.

~~410.19 A1~~—The firm might also disclose information in the audit report that is relevant to understanding the ratio described in paragraph R410.19. Examples include:

- ~~•~~—The ratio of audit fees and total fees for services other than audit charged by the firm or network firm during the period covered by the financial statements.
- ~~•~~—Whether services other than audit provided to an audit client are required by laws and regulations.

Deletion of the Subheading on "Nature and Level of Fees for Services Other than Audit from an Audit Client"

- Paragraphs on contingent fees for services other than audit are retained under the subheading of *Contingent Fees*. Also, provisions on transparency of fees for services other than audit have been

moved to the new subsection on “Transparency of Information Regarding Fees for Audit Clients that are Public Interest entities”.

New Subsection on “Total Fees - Ratio of Audit Fees and Fees for Services Other than Audit”

- In the case of threats created by the proportion of fees for audit and non-audit services, the Task Force no longer suggests that the Code include any specific ratio (70 percent) as a threshold to re-evaluate threats and apply safeguards (former paragraph R410.19).
- Since firms are not required to be aware of the exact ratio of fees, *Paragraph 410.11 A1* sets out that the firms should consider both fees charged by the firm and by network firms to an audit client when determining whether the proportion is high and when evaluating the threats created by that proportion.
- *Paragraph 410.11 A2* includes the following new factors:
 - Although there is no threshold for high proportion of fees to be included in the Code, the ratio is included as a factor to consider when evaluating treats.
 - Based on the definition of the audit client (see R400.20), the firm should also consider the significance of fees charged to related entities of the audit client. Based on the relationship between the related entity and the audit client, the level of threat can vary.
- The Task Force proposes an appropriate reviewer to review the audit work as an example of safeguard in *paragraph 410.11 A3*. However, in the case of a group audit situation, when the firm charged fees for non audit service only to certain components, a review of the audit work in relation to the relevant component could be an effective safeguard as well.

Total Fees – Relative Size

All Audit Clients

410.1229 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 losing the client create a self-interest or intimidation threat.

410.12 A2 In calculating the total fees ~~to be received by the~~ 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.

410.1229 A32 Factors that are relevant in evaluating the level of such threats include:

- ~~The operating structure of the firm.~~
- ~~The qualitative and quantitative significance~~ The significance of the client ~~qualitatively and quantitatively~~ to the firm.
- Whether the firm is expected to expand such that the significance of the client is likely to reduce. ~~Whether the firm is well established or new.~~

410.1229 A43 An example of an action that might be ~~a~~ safeguards to address such a self-interest or intimidation threat ~~is~~ include

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

410.1229 A54 A self-interest or intimidation threat is 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.

410.1229 A65 Factors that are relevant in evaluating the level of such threats include:

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

410.1220 A67 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- ~~Increasing the client base of the partner or the office to reduce dependence on the audit client.~~ ~~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 in the audit engagement review the audit work.

Audit Clients that are Not Public Interest Entities

R410.1324 When total fees from the 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 ~~expressing the opinion on the financial statements of the client~~ for five consecutive years, the firm shall determine whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, 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, ~~performs an engagement quality review of that engagement;~~ or a professional body review the fifth year's audit work~~performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review");~~ 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 ~~performs a review of the~~ fifth year's audit work ~~that is equivalent to an engagement quality review ("a post-issuance review").~~

R410.1422 If the total fees described in paragraph R410.1324 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.1324 ~~(a) or (b)~~ applied to the relevant year's engagement might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it.

R410.1523 In the case of a joint audit, where the circumstances addressed by paragraph R410.1324 apply ~~ies~~ to only one of the firms expressing the audit opinion, the involvement of the other firm in the joint audit ~~then provided the total fees received by the other firm represents less than 30% of the total fees received by that other firm, then this~~ may be regarded as an action providing a safeguard equivalent to that in R410.1324 (a).

Audit Clients that are Public Interest Entities

Addressing Fee-dependency

R410.1624 Where an audit client is a public interest entity and the total fees from the client and its related entities 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, expressing the opinion on the financial statements of the client, the firm shall disclose to and discuss with those charged with governance of the audit client the fact that the total of such fees are likely to represent more than 15 % of the total fees received by the firm.

R410.17 In the case of a joint audit where the circumstances addressed by paragraph R410.16 R410.25 to R410.28 applies to only one of the firms expressing the audit opinion, then provided the total fees received by the other firm represents less than 30% of the total fees received by that other firm, then this may be regarded as an action providing a safeguard equivalent to that that in paragraph R410.16 in R410.25 (b).

Addressing High Levels of Fee Dependency

~~**R410.26** When an audit client is a public interest entity and the total fees from the client and its related entities are likely to substantially exceed 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:~~

- ~~(a) Disclose to those charged with governance of the audit client the fact that the total of such fees are likely to substantially exceed 15% of the total fees received by the firm~~
- ~~(b) Comply with paragraph R410.25 (b), and~~
- ~~(c) Disclose publicly in the audit report the fact that the total of such fees represents substantially more than 15% of the total fees received by the firm.~~

~~**R410.27** When determining whether the total fees received from an audit client that is a public interest entity substantially exceeds 15 %, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would likely to reach the same conclusion.~~

~~410.27 A1 Factors that are relevant in determining the significance of total fees from the audit client that is a public interest entity include:~~

- ~~• The fact that total fees from the client and its related entities represents more than 30 % of the total fees received by the firm.~~
- ~~• Any non-recurring, significant facts and circumstances that are likely to affect the performance and the complexity of the audit engagement, such as mergers and acquisitions at the audit client or at the firm.~~
- ~~• Changes affecting the client base of the firm, such as laws and regulation requiring mandatory firm rotations.~~

~~**R410.28** If an audit client is a public interest entity and the fees described in paragraph R410.26 continue to substantially exceed 15%, the firm shall each year, for the next four years, comply with R410.26.~~

~~**R410.1830** Subject to paragraph R410.19, if the circumstances described in paragraph R410.16 if an audit client is a public interest entity and the fees described in paragraph R410.26 continue to substantially exceed 15 % for five consecutive years, the firm shall cease to be the auditor after the audit report for the fifth year is issued. Before resigning, the firm shall take into consideration, and take actions to comply with, laws and regulations governing auditor resignations.~~

R410.19 As an exception to paragraph R410.18, the firm may continue to be the auditor after five consecutive years if there are compelling reasons to do so having regard to the public interest, provided that:

- (a) The firm consults with the relevant professional body and it concurs that having the firm

continue as the auditor would be in the public interest; and

(b) After the audit opinion on the fifth and any subsequent year's financial statements 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 performs 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.

410.19 A1 A factor which might give rise to compelling reasons 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.

Changes to “Total Fees – Relative Size”

All Audit Clients

- The Task Force revisited the factors and safeguards to modernize the general provisions on fee-dependency at firm, office and partner level. In *paragraph 410.12 A3*, the Task Force is of the view that firms should not only consider whether the firm is well established or new, but also whether it is capable of expanding the client base, irrespective of the start of the business. That does not exclude that the level of threat could be lower in case of new businesses.
- Regarding changes to the safeguards in *paragraphs 410.12 A4 and 410.12 A7*, the Task Force is of the view that reducing the extent of the non-audit services is a more practicable action and a more effective safeguard to achieve restructuring of the current spectrum of fees than increasing the client base.

Audit Clients that are not Public Interest Entities (PIEs)

- In *paragraph R410.13 (a) and (b)*, based on comments provided by representatives of the IFAC Small and Medium Practices (SMP) Committee, the Code would provide greater flexibility for non-PIE clients regarding the type of review required as a safeguard in the case of fee-dependency.

PIE Audit Clients

- For PIE audit clients, the Code would only retain the existing 15 percent threshold. The previous requirements and application material for addressing high level of fee dependency, when total fees from an audit client substantially exceed the 15 percent threshold, are deleted.
- Requirements and application material regarding the communication of fee dependency to those charged with governance (TCWG) after the first year and public disclosure after the second year have been moved to the new subsection on transparency.
- In line with the approach in the Extant Code, in *paragraph R410.16* the Task Force proposes that after two consecutive years the firm be required to determine whether a pre-issuance review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements would be an appropriate safeguard to reduce threats.
 - In relation to this safeguard, the Task Force will propose to include the definition of engagement quality review in the Glossary of the Code based on the proposed wording in ISQM 2, after coordination with IAASB staff.
- *Paragraph R410.18* still sets out a requirement for firms to end the engagement if the fee dependency continues for more than 5 years. However, as it was suggested by some Board members, in *paragraph R410.19* the Code would recognize that in some cases it is in the public interest that the firm continues the engagement. Furthermore, the firm is required to communicate this position to TCWG (*paragraph R410.26 (c)*) and disclose publicly the first year in which the total fees exceeded the 15% threshold (*paragraph R410.27 (c)*). The Task Force deliberated whether the professional body is an appropriate decision-maker compared to an independent regulator but considered this was a responsibility that was

best retained by the accounting profession.

Total Fees – Overdue Fees

410.2034 A1 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.

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

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

410.2034 A32 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 did not take part in the audit engagement review the work performed.

R410.2132 When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

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

Changes to Subheading on “Overdue Fees”

- Paragraph 410.20 A2 includes new factors to evaluate the level of threats created by overdue fees. Asides, there are no changes to the provisions of the Extant Code on overdue fees.

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

410.22 A1 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. As transparency can serve to better inform the views and decisions of 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.

Communication About Fee-related Information with Those Charged with Governance

Audit Fees

R410.23 The firm shall communicate in a timely manner ~~the firm's compliance with paragraph R410.5 and other relevant information about the audit fees, including the level of fees, to~~ those charged with governance of an audit client that is a public interest entity regarding:-

- The 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;
- Any fees for the audit of special purpose financial statements and review engagements; and
- How the firm complied with paragraph R410.4.

410.23 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. 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.

410.23 A2 Examples of relevant audit fee information that the firm might discuss with those charged with governance about the audit fees include:

- Considerations affecting the level of the fee ~~the resources allocated to the audit~~ such as
 - The scale, ~~and~~ complexity and geographic spread of the audit client's ~~of operations,~~
 - ~~geographic spread,~~
 - The need to utilize specialist resources, ~~and~~
 - The quality of record keeping and processes for financial statements preparation.
- Any adjustments or variations to the fees quoted or charged during the course of the audit, and the reasons for any such adjustments.
- ~~Basis for determining audit fees for components.~~
- Any changes to national laws and regulations and professional standards relevant to the audit that impacted the fee undertaken.
- ~~Timing of the work within the annual cycle and deadline provided for the issuance of the audit report, such as an accelerated reporting timeline or statutory filing timeline.~~

410.23 A3 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. In order to allow those charged with governance to be given relevant information about the audit fees in a timely manner, the firm is encouraged to provide such information as soon as practicable. Preferably, this should occur as part of the planning stage of the audit with any proposed adjustments communicated as the firm determines them. If adjustments are determined after the issuance of the audit report, such adjustments also form part of the required communication.

Fees for Services Other than Audit

R410.24 When a firm provides services other than audit to an audited entity that is a public interest entity, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity regarding the ratio of audit fees, and total the fees for services other than audit 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 audited entity (which for this purpose shall include only related and the entities over which the audited entity has direct or indirect control).

410.24 A1 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.

- The proportion of fees 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

R410.26 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 R410.16); and
- (c) Any proposal to continue as the auditor under paragraph R410.19.

Public Disclosure of Fee-related Information

R410.27 The firm shall be satisfied that the following information is publicly disclosed in a timely manner, providing appropriate accessibility:

- (a) The 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 shall be met by compliance with laws and regulations which substantively satisfy the corresponding requirements.

410.27 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 work carried out by any component auditor at the 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)*.

410.27 A2 Examples of compliance with laws and regulations which would not substantively satisfy paragraph R410.27 include:

- Excluding, in the case of a group audit, fees charged by any component auditors carrying out work at the direction of the group engagement partner.

- Excluding fees for services other than audit provided by network firms to the audit client and related entities over which the client has direct or indirect control.

410.27 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.

410.27 A4 If the firm discloses information required by paragraph R410.27 in the audit report [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].

410.27 A5 The firm might also discuss with the client if disclosure of other information relating to fees might enhance the reader's understanding. Examples of such information include:

- Comparative information for the prior year's fees for audit and services other than audit.
- 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.

410.27 A6 The disclosure is regarded as appropriately accessible if the information required by paragraph R410.27 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.

Considerations for Review Clients

R410.28 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-R410.27)

New Subheading on "Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities"

- Responsive to Board members' comments, the Task Force suggests positioning requirements and application material in a separate subsection related to transparency of fee-related information. Paragraph 410.22 A1 provides a rationale and explains the role of enhanced transparency in reducing the level of threats created by fees paid to PIE audit clients.

Auditor's Communication About Fee-related Information to TCWG

- The suggested provisions aim to create a two-way communication with TCWG regarding the following information:
 1. The amount of audit fees and the firm's compliance with the independence requirement in relation to level of audit fees.
 2. The amount of fees for non-audit services charged either by the firm or by network firms to the audit client, and in relation to the proportion of such non audit fees to audit fees, information on threats and safeguards (if there is any).
 3. The fact of fee-dependency and whether this situation is likely to continue; and the safeguards applied.

Public Disclosure of Fee-related Information

- The Task Force revisited the suggested provisions relating to public disclosure of fee-related

information, proposing more guidance on how to achieve transparency of the information described in *paragraph R410.27* in a timely manner that also provides appropriate accessibility.

- Since it is not always possible to determine whether national laws and regulations differ or go beyond the provisions of the Code regarding the extent of the information to be disclosed, to avoid duplication of obligations in relation to public disclosure, the Code would recognize compliance with such national laws and regulation as compliance with the Code if those national requirements substantively satisfy the requirement in *paragraph R410.27*.
- *Paragraph 410.27 A3* provides examples of possible locations of the disclosure by the client, or otherwise, by the firm, that meet the conditions of timeliness and appropriate accessibility. Disclosure in the audit report is included only as an example of a suitable location for the disclosure. In case the firm discloses this information in the audit report, *paragraph 410.27 A4* will include a reference to the requirements of the appropriate ISA and would provide guidance regarding the location of the disclosure in the audit report.