

# Revised Fee-related Provisions of the Code

## Guidance for Professional Accountants in Public Practice

### Q&As Relevant to Non-Public Interest Entities (Non-PIEs) and PIEs

#### General

**Q1. Section 410 includes provisions relevant to fees and other types of remuneration received from an audit client. Is there a particular method a firm<sup>1</sup> should use to determine which fee for a specific service (e.g., fee quoted, charged or paid) it should take into consideration when evaluating the level of the threats to independence created by the provision of that service to the audit client?**

**A.** Given that fee arrangements and methods of payment vary widely in practice, the IESBA does not believe it would be appropriate for the Code to be overly prescriptive in terms of the method a firm should use to determine the fees and other types of remuneration (for example, the fees quoted, charged or paid) that should be taken into consideration for purposes of identifying, evaluating and addressing threats to independence.

A firm should consider any type of payment received from the audit client for purposes of evaluating and addressing the level of the threats created. In line with the Code’s conceptual framework, the firm should exercise professional judgment in determining the amount of the fees or other type of remuneration received for providing audit or any other services to the audit client, including any payment-in-kind. To evaluate the level of the threats created by fees from an audit client, the firm may consider the fees quoted or charged or actually paid for the specific service, depending on the time and circumstances of the evaluation.

**Q2. Section 410 refers in various places to “audit fees” and “fee for the audit of the financial statements.” Are these the same?**

**A.** No, they are not the same. Paragraph 410.3 A3 provides that for the purposes of Section 410, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. This is consistent with the general drafting convention established in paragraph 400.2 for Part 4A whereby the term “audit” applies equally to “review”. However, where reference is made in paragraphs R410.23(a), 410.25 A1 and R410.31(a) specifically 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.

1. In this document, the term “firm” is used in line with its definition in the Glossary to the Code.

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This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants® (IESBA®). It is intended to assist national standards setters, IFAC member bodies and professional accountants (PAs) in public practice (including firms) as they adopt and implement the revisions to the fee-related provisions of the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)*™ (the Code). The IESBA issued its [Fees pronouncement](#) in April 2021.

This publication is designed to highlight, illustrate or explain aspects of the revised fee-related provisions in the Code, and thereby assist in their proper application.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading the Q&As is not a substitute for reading the Code. The Q&As are not intended to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

**Threats Created by Fees Paid by an Audit Client**

**Q3. What is the relevance of a system of quality management designed, implemented and operated by a firm in accordance with the International Auditing and Assurance Standards Board's (IAASB) quality management standards to the level of the self-interest threat created by fees paid by an audit client?**

**A.** Paragraph 120.15 A3 provides that in the context of audits, reviews and other assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of conditions, policies and procedures that might assist in identifying and evaluating threats to independence. Paragraph 410.4 A4 refers specifically to this provision in Section 120 in the context of fees.

In the context of determining whether the threats to independence created by the fees proposed to an audit client are at an acceptable level in accordance with paragraph 410.4 A2, an effective system of quality management might indicate that the threats are likely to be evaluated to be at an acceptable level.

**Q4. The application of the conceptual framework requires that before a firm or network firm accepts an audit, assurance or any other engagement for an audit or assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. How could the firm demonstrate and document compliance with this requirement?**

**A.** The IESBA anticipates that the revised provisions will influence firms' policies or procedures relevant to determining fees for audit or other services provided to an audit client, and for engagement partners to satisfy themselves that those policies and procedures, which form part of the system of quality management, are effective.

Paragraph 410.4 A1 states that when fees (for audit or other services) are negotiated with and paid by an audit client,<sup>2</sup> this creates a self-interest threat and might create an intimidation threat to independence. However, if a firm has designed and implemented a system of quality management in accordance

with quality management standards such as ISQM 1<sup>3</sup> and is operating it effectively, this could contribute to the firm evaluating the level of those threats to be at an acceptable level. This assessment is not limited only to pre-engagement acceptance but applies also during the engagement if facts and circumstances change. (See also Q3.)

For example, the policies or procedures within the firm's system of quality management might be designed to ensure that fees to be determined fully take into account adequate resources to perform an audit engagement. In that case, in complying with those policies or procedures, an engagement partner for the audit of a client's financial statements might often conclude that the threats created by the audit fee paid by the audit client are at an acceptable level, and therefore no further documentation is required at the engagement level.

On the other hand, such policies or procedures – based on the Code's relevant fee-related provisions – might require an analysis of threats and the application of safeguards in specific situations, such as when multiple non-assurance services (NAS) are provided by the firm or network firms to an audit client. In that case, through following such policies or procedures, an engagement partner might document the analysis of the threats, any safeguards applied and the conclusions reached, consistent with the general documentation provision in paragraph R400.60.

**Q5. Paragraph 410.4 A3 sets out various factors relevant in evaluating the level of threats created by fees paid by an audit client. How could each of these factors impact the evaluation of the level of the threats?**



**A.** The tables on the next two pages explain how the various factors can impact the evaluation of the level of the threats.

2. The IESBA acknowledges that this practice is generally recognized and accepted by intended users of financial statements.  
 3. International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Factor	Impact on Level of Threats
<p>The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities</p>	<p>It is not feasible for the Code to prescribe the level of fees a firm should charge for services provided to an audit client. This will be a business decision of the firm taking into account the facts and circumstances of the specific engagement, including the requirements of technical and professional standards.</p> <p>For example, a firm might decide to charge a lower fee for a particular engagement in an effort to establish or grow share in a new market. If in setting that fee, the firm gives insufficient regard to the resources necessary for the performance of the engagement, this might increase the level of the threats.</p>
<p>Any linkage between fees for the audit and those for services other than audit and the relative size of both elements</p>	<p>A large proportion of fees for services other than audit to audit fees might adversely impact the level of the threats, including from a perception point of view. See paragraphs 410.11 A1 to A3.</p> <p>If a firm charges a lower audit fee because it is able to charge significantly more fees for other services to the same audit client, this would be prohibited under paragraph R410.6 (subject to the exception in paragraph R410.7).</p>
<p>The extent of any dependency between the level of the fee for, and the outcome of, the service</p>	<p>If a fee is calculated on a predetermined basis relating to the outcome of a transaction or the result of the service (i.e., a contingent fee), there might be a perception that the firm is no longer objective as it could influence that outcome or result to maximize the fee. This might therefore increase the level of the threats, particularly the self-interest threat.</p> <p>Section 410 prohibits a contingent fee for an audit engagement. Such a contingent fee would impair the auditor's objectivity and independence as it might motivate the auditor to issue an unmodified report regardless of the engagement circumstances.</p> <p>See also paragraphs 410.8 A1 to 410.10 A3.</p>
<p>Whether the fee is for services to be provided by the firm or a network firm</p>	<p>A network firm providing services other than audit to an audit client might not be closely involved in the audit engagement performed by the firm expressing an opinion on the financial statements. Therefore, the level of the threats to independence created by fees charged by such a network firm is generally expected to be lower than the level of the threats in the case of fees charged by the firm expressing an opinion on the financial statements.</p>
<p>The level of the fee in the context of the service to be provided by the firm or a network firm</p>	<p>The level of the self-interest threat created by fees paid by the audit client does not depend on the type of service (assurance or non-assurance) provided. However, the context of the service is a relevant factor when considering the level of the fee for a specific service. For example, if the fee for a complex service requiring significant expertise and experience is disproportionately low, the level of the self-interest threat would be higher compared with the threat when the same level of fee is paid for a non-complex service.</p> <p>The regulatory environment in which the service is performed is also an example of a relevant contextual factor. The regulatory oversight might in itself be expected to increase the work required and hence the level of fee charged.</p> <p>Therefore, the level of the fee should be considered in the context of the environment and specific requirements of the service to be provided, as that fee level might impact the level of the threats created.</p>

Factor	Impact on Level of Threats
<p>The operating structure and the compensation arrangements of the firm and network firms</p>	<p>The operating structure and compensation arrangements of a firm and its network firms might adversely impact the level of the threats if, for example, the compensation of audit team members depends on the services they have sold to an audit client or referred to network firms.</p> <p>See also Section 411, Compensation and Evaluation Policies.</p>
<p>The significance of the client, or a third party referring the client, to the firm, network firm, partner or office</p>	<p>The significance of the client to the firm, network firm, partner, or office refers to how important the audit client is from their respective points of view. For example, the more significant the client is to the firm, the higher the level of the threats might be relative to the fees paid by the client.</p> <p>An example of a circumstance where a third party referring the client to the firm, network firm, partner or office might be considered significant is where the third party is the source of not only the audit client but also multiple other audit clients and the total fees from those clients represent a large proportion of the total fees of the firm, network firm, partner, or office.</p>
<p>The nature of the client, for example whether the client is a PIE</p>	<p>The nature of an audit client can impact the firm's evaluation of the level of the threats created by fees paid by the client. For example:</p> <ul style="list-style-type: none"> <li>• When the audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence.</li> <li>• If an audit client uses the firm to supply multiple NAS, the level of the threats may be higher than for an audit client that uses the firm to a lesser degree for NAS.</li> </ul>
<p>The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity</p>	<p>The further the related entity is from the client in the client's group structure (e.g., a sister entity compared with a subsidiary), generally the less influence the client will have on the commissioning of services other than audit by the related entity, and hence the lower the level of the self-interest threat in relation to the audit work.</p>
<p>The involvement of those charged with governance (TCWG) in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees</p>	<p>The role of TCWG in appointing auditors and negotiating fees provides an independent "check and balance" mechanism to the audit client payer model and mitigates the self-interest threat. Furthermore, so does a clear commitment from them and management to audit quality and to paying a level of fees that would support such quality.</p>
<p>Whether the level of the fee is set by an independent third party, such as a regulatory body</p>	<p>If, in a particular jurisdiction, the regulatory body determines the appointment of the firm or the level of fees for the audit of the financial statements, the level of threats will be generally lower than if the firm has to negotiate the fee with the audit client so as to secure its appointment.</p>
<p>Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body</p>	<p>Inspections of the firm's system of quality management by an independent oversight body provide a guardrail against the self-interest threat created by fees paid by an audit client such that the level of the threats created by fees paid by an audit client is expected to be lower.</p>

**Q6. Paragraph 410.4 A3 indicates that one of the factors relevant in evaluating the *level of threats created by fees paid by an audit client* is the level of the fees and the extent to which they have regard to the resources required, taking into account “the firm’s commercial and market priorities”. Paragraph 410.5 A2 indicates that one of the factors relevant in evaluating *the level of the threats created by the level of the audit fee paid by the audit client* is “the commercial rationale for the audit fee”. How are these factors different?**

**A.** There is a difference between the objectives of the two factors. The firm’s “commercial and market priorities” points to a more strategic perspective and requires a broader consideration of the firm’s fee strategies and its associated policies and practices in the context of its overall market positioning. By contrast, the firm’s “commercial rationale for the audit fee” focuses only on the level of the fee for the specific audit engagement and considers only the facts and circumstances of the audit engagement.

**Proportion of Fees**

**Q7. The level of the self-interest threat might be impacted when a large proportion of fees charged by a firm or its network firms to an audit client is generated by providing services other than audit to the client. What would constitute a “large proportion?”**

**A.** In developing the revisions to the fee-related provisions, the IESBA concluded that a threshold or a cap regarding the proportion of fees for services other than audit to the audit fee would not be appropriate in the context of a globally applicable Code. In general, the larger the proportion, the higher the level of the threats. Professional judgment and consideration of the facts and circumstances from the perspective of a reasonable and informed third party are necessary. Such facts and circumstances include, for example, whether the services other than audit are one-off or recurring; whether it is likely that the audit fee will increase significantly because of an imminent acquisition by the client; or whether the auditor is required by law or regulation to provide some of the services other than audit.

In some jurisdictions, independence provisions might specify a specific threshold or cap for the proportion of fees for

services other than audit to the audit fee. Such provisions are often applied in the context of the fees received by the firm only. In contrast, the Code’s guidance on the proportion of fees extends to the network level. Therefore, it would not be appropriate to only consider such jurisdictional provisions as the Code’s guidance is broader.

**Q8. When determining the proportion of fees for services other than audit to the audit fee, which period should a firm use to determine the fees charged for services other than audit provided to the audit client by the firm and network firms? Are the relevant fees only those charged during the period covered by the financial statements?**



**A.** Fees charged after the period covered by the financial statements but before the firm issues the audit report could still influence the firm’s judgments and create a threat to independence. Therefore, when evaluating the level of the threats created by the proportion of fees, a firm must consider all fees quoted or charged or actually paid for services other than audit during the period independence is required, as defined in paragraph R400.30 of the Code.

**Q9. Which fees should a firm consider when determining the proportion of fees for services other than audit to the audit fee as set out in paragraph 410.11 A1? Some jurisdictions use the term “audit-related” services. How should fees for such “audit-related” services be treated?**

**A.** Pursuant to paragraph 400.2, the audit fee includes the fee for an audit of financial statements (whether general or special purpose financial statements) and any fee for a review of financial statements. Fees for services other than audit cover fees for any other professional services provided to the audit client, including fees for any “audit-related” services.

**Q10. Is there an expectation under the Code for a firm to disclose the proportion (i.e., ratio) of fees for services other than audit to the audit fee (as set out in paragraph 410.11 A1) to TCWG and to the public?**

**A.** There is no requirement for a firm to disclose the proportion of fees for services other than audit to the audit fee to TCWG and to the public.

However, in the case of a PIE audit client, 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 to the audit fee, paragraph R410.25(b) of the Code requires the firm to disclose to TCWG:

- (a) Whether such threats are at an acceptable level; and
- (b) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

The firm might disclose the proportion of such fees to TCWG if the firm believes that this information would provide more background and context to them in making a judgment about the firm's independence.

**Fee Dependency**

**Q11. Paragraph 410.14 A1 refers to the “total fees generated from an audit client by the firm.” Paragraphs R410.15 and R410.18 refer to the “total fees from an audit client.” How are such fees to be determined?**

**A.** The determination of total fees “from an audit client” or “generated from an audit client” covers the same categories of fees, i.e., all fees, including fees for the audit of the financial statements and for services other than audit, received from the audit client and its related entities. The scope of related entities covered (i.e., which related entities are included) is to be determined in accordance with paragraph R400.20 of the Code.

**Q12. Paragraphs R410.15 and R410.18 require a firm to determine whether a pre-issuance review performed by a professional accountant outside the firm might be a safeguard to reduce the threats created by fee dependency to an acceptable level. Could the reviewer be a professional accountant from a network firm?**

**A.** The IESBA agreed that a pre-issuance review performed by a professional accountant from a network firm is also an action that might be a safeguard because that individual is not a member of the firm and would be an appropriate reviewer as described in paragraph 300.8 A4 of the Code.

Under the Structure drafting conventions<sup>4</sup> for the Code, the term “firm” does not refer to network firms too. Therefore, without explicitly referring to it, the Code permits the professional accountant outside of the firm who performs the review to be a member of a network firm, provided that the accountant meets the provisions of the Code relevant to appropriate reviewers. (See also Q13.)

**Q13. Who would qualify to perform a pre- or a post-issuance review in accordance with paragraphs R410.15 and R410.18?**

**A.** The reviewer in paragraphs R410.15 and R410.18 is an example of an appropriate reviewer as the Code contemplates the use of reviewers as safeguards only when they are “appropriate reviewers” (see paragraph 300.8 A2). Paragraph 300.8 A4 describes an appropriate reviewer as an individual who has (i) the authority and (ii) the knowledge, skills and experience to review the relevant work performed in an *objective* manner. The Code does not limit appropriate reviewers to individuals only within a firm.

The IESBA's guidance, *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*, issued in January 2021,<sup>5</sup> is relevant when evaluating the objectivity of a professional accountant outside of the firm being considered to serve as a reviewer for purposes of implementing a safeguard pursuant to paragraphs R410.15 and R410.18.

4. The “Drafting Guidelines for the Restructured IESBA Code” were finalized in December 2017 as part of the restructuring of the Code.  
 5. The revisions relevant to audits and reviews of financial statements are effective for financial statement periods beginning on or after December 15, 2022.

**Q14. In addition to the examples of actions that might be safeguards as specified in paragraph R410.15 for audit clients that are not PIEs and in paragraph R410.18 for audit clients that are PIEs, are there any other safeguards to address threats created by continuing fee dependency?**

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- A. No. IESBA is of the view that at such a level of fee dependency, only a pre- or a post-issuance review performed by a reviewer outside of the firm could reduce the threats to an acceptable level.

Paragraphs R410.15 and R410.18 require a firm to determine whether any of the actions specified might be a safeguard to reduce the threats to an acceptable level, and if so, apply it. In line with the requirements on applying the conceptual framework<sup>6</sup>, if the firm concludes that none of the actions would be a safeguard, the firm would be required to cease being the auditor. Consequently, implementing any other actions to address the threats created by fee dependency in the circumstances described in paragraphs R410.15 and R410.18 would not be in compliance with the Code.

**Q15. Paragraph 410.14 A4 indicates that one of the possible safeguards in the case of fee dependency on an audit client for a firm is to have an appropriate reviewer who is not a member of the firm review the audit work. Paragraph 410.14 A7 indicates that one of the possible safeguards in the case of fee dependency on an audit client for a partner or an office of the firm is to have an appropriate reviewer who was not involved in the audit engagement review the audit work. Why are these possible safeguards not the same in these two cases?**

.....

- A. In the case of fee dependency for a firm (paragraph 410.14 A1), the IESBA is of the view that only a review performed by an appropriate reviewer who is not a member of such firm could be a safeguard capable of reducing the threats to an acceptable level. This is because any member of the firm is likely to have a self-interest in the firm’s financial position. However, in the case of fee dependency for a partner or an office of the firm, the reviewer may be a member of the firm provided that they were not involved in the same audit engagement. This is because the level of self-interest in a partner’s or an office’s financial position might differ from

member to member. The IESBA considers that the threats with respect to the firm are at a more systemic level and, therefore, the possible safeguard is more demanding.

Regardless of whether the fee dependency is at the firm, office or partner level, threats to the objectivity of the individual to be appointed as an appropriate reviewer would need to be considered. The IESBA’s guidance, *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*, is relevant in such circumstances.

**Other Matters**

**Q16. Section 410 refers to the concept of “significance” in various places, for example, in paragraphs 410.4 A3, R410.10(b), 410.12 A3, R410.13 and 410.26 A1. How should this concept be interpreted?**

.....

- A. The concept of “significance” is used throughout the Code in line with the Code being principles-based. It is therefore an established concept in the Code, requiring the exercise of appropriate professional judgment (as described in paragraphs 120.5 A4 and A5 of the Code effective as of December 31, 2021) to the particular facts and circumstances.

6. Please refer to paragraph R120.10.

## Q&As Relevant to PIEs Only

### Fee Dependency

**Q17. Would an engagement quality review pursuant to ISQM 1 and ISQM 2<sup>7</sup> fulfill the requirement in paragraph R410.18 in the case of fee dependency on an audit client that is a PIE?**

- A.** Not necessarily. The aim of the pre-issuance review in paragraph R410.18, if a firm determines that it is a safeguard, is to give confidence that irrespective of the level of fee dependency, the firm remained objective in performing the audit work and that the work was carried out satisfactorily. The scope of the review should be determined by the reviewer based on the reviewer's professional judgment and the facts and circumstances, bearing in mind that objective.

The performance of an engagement quality review pursuant to ISQM 1 and ISQM 2 and a review pursuant to paragraph R410.18 of the Code serve different objectives. An engagement quality review would therefore not necessarily fulfill the Code's requirement in paragraph R410.18.

In addition, while paragraph R410.18 sets out that the reviewer carrying out the pre-issuance review be a professional accountant outside of the firm, this is not an explicit requirement in the case of engagement quality reviewers appointed in accordance with ISQM 1 and ISQM 2.

**Q18. According to the revised provisions on fee dependency, the existence of a joint audit could be regarded each year as providing for an action equivalent to a pre-issuance review pursuant to paragraph R410.18. Would such a joint audit also provide an exception to the requirement in paragraph R410.20 for a firm to cease to be the auditor of a PIE audit client if fee dependency continues for more than five consecutive years?**



- A.** No. In the case of a joint audit, the Code provides the opportunity for a firm not to have a pre-issuance review performed as a safeguard if the circumstances of the joint audit meet the criteria set out in paragraph R410.19. However, even in the case of a joint audit, if the fee dependency continues for five consecutive years, the firm would still be required to cease to be the auditor.<sup>8</sup>

**Q19. In some jurisdictions, there are legal provisions prohibiting a firm from resigning as auditor even if fee dependency on a PIE audit client has continued for more than five consecutive years. Does the firm have to comply with the other relevant requirements of Section 410 and cease to be the auditor as soon as national laws and regulations allow?**

- A.** According to revised paragraph R100.7 of the Code, there might be circumstances where laws or regulations preclude a professional accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the professional accountant is required to comply with all other parts of the Code.

Therefore, if laws or regulations prohibit a firm from resigning as the auditor after five consecutive years of fee dependency, the firm must comply with the relevant laws or regulations and continue the engagement. Nevertheless, the firm must still comply with the rest of Section 410. This means that the firm must have a pre-issuance review performed each year as long as the fee dependency continues, following paragraph R410.21(b).

Furthermore, as soon as it is permissible by national laws and regulations, the firm must cease to be the auditor and end the audit engagement.

**Q20. As an exception to the requirement in paragraph R410.20 for a firm to cease to be the auditor of a PIE audit client if fee dependency continues for five consecutive years, paragraph R410.21 provides the possibility for the firm to continue as the auditor beyond those five years if the firm consults with a regulatory or professional body in the relevant jurisdiction and that body concurs that having the firm continue as the auditor would be in the public interest. What process should the firm follow to initiate such consultation and obtain concurrence?**

7. ISQM 2, *Engagement Quality Reviews*

8. In accordance with paragraph R410.21, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so, having regard to the public interest.



- A. It is not within the remit of the Code to prescribe the consultation process with, and how to obtain concurrence from, the relevant regulatory or professional body at a jurisdictional level. The regulatory or professional body might have its own regulations or by-laws that prescribe the process to follow.

The IESBA considers that jurisdictions can decide on a suitable process for the consultation and the conditions under which to provide concurrence, for example, whether the regulatory or professional body would allow extending the engagement by an additional year or for a certain period. Furthermore, the regulatory or professional body could specify reasons that it considers compelling to justify allowing the firm to continue the audit engagement, taking into account the specificities of the local market.

**Enhanced Transparency with Respect to PIE Audit Clients**

**Communication with Those Charged with Governance**

**Q21. Paragraphs R410.23 and R410.25 require a firm to communicate certain fee-related information to TCWG in a timely manner. Does this mean the firm has to disclose this information prior to accepting the audit or any other engagements? Does the Code provide any guidance regarding what would be considered timely?**

- A. Concerning the communication of fee-related information to TCWG, the requirements allow flexibility for firms, and therefore the IESBA intentionally did not include any specific guidance or examples. When determining the appropriate timing of the communication with TCWG, firms should consider the overall objective of the requirements, i.e., to enable TCWG to make an informed judgment about the firm’s independence.

The appropriate timing of the communication could vary according to the circumstances, e.g., nature of services, one-off or recurring engagements, changes in scope or unforeseen issues arising, governance arrangements of the audit client, etc. Firms might also take different approaches for setting fees. For these reasons, the IESBA did not believe it is possible or necessary to prescribe the precise timing for such communication.

Therefore, firms should exercise professional judgment in determining the timing of the communication based on the specific circumstances but guided by the principle of timeliness. Thus, a firm might conclude that communication with the TCWG about fee-related information should occur not only before accepting the engagement but also when there is a significant change in the engagement circumstances.

**Q22. Paragraph R410.28 requires a firm to communicate with TCWG where the total fees from a PIE audit client represent or are likely to represent more than 15% of the total fees received by the firm. Does the Code require this communication to TCWG only in the second year of the fee dependency?**

- A. No, the Code requires a firm to communicate with TCWG where the total fees from a PIE audit client represent or are likely to represent more than 15% of the total fees received by the firm even in the *first year* of the fee dependency, and in every subsequent year until the fee dependency ends. Furthermore, the firm must also disclose any safeguard<sup>9</sup> applied in the first year to address the threats created by the fee dependency.

The IESBA believes that such a level of fee dependency on a PIE audit client is essential information for TCWG to make an informed judgment about the firm’s independence. In addition, this communication provides an opportunity for TCWG to consider possible actions to reduce the level of fee dependency, which might include discontinuing other services provided by the firm and, instead, engaging other firms for these other services.

However, if the fee dependency continues for two consecutive years, the firm would still be required to determine whether the pre-issuance review described in paragraph R410.18 would be an appropriate action to reduce the threats to an acceptable level in the second year of the engagement.

**Public Disclosure**

**Q23. Suppose that in a jurisdiction, there are confidentiality laws that would restrict firms from disclosing fee-related information of the client. Would this mean that the provisions in Section 410 regarding public disclosure have limited applicability or relevance in that jurisdiction?**

9. This safeguard does not need to be a pre-issuance review as set out in paragraph R410.18 for the second year of the audit engagement.

- A. As a first step, paragraph R410.30 requires a firm to discuss with TCWG of an audit client the benefit to the client's stakeholders of the client making such a disclosure. If the client does not disclose the fee-related information and the confidentiality laws restrict the firm from disclosing the information, the requirements regarding public disclosure in the Code do not apply in that jurisdiction.

Based on the overarching principle set out in revised paragraph R100.7 of the Code, where laws or regulations preclude a firm from complying with certain parts of the Code, those laws and regulations prevail. In these circumstances, the firm will need to comply with all other parts of the Code.

**Q24. A firm is the auditor of a PIE audit client A in jurisdiction J1. The audit client has a subsidiary B in jurisdiction J2, which is audited by a network firm. The financial statements of B are consolidated into the group financial statements of A. In jurisdiction J2 there are confidentiality laws that would restrict the disclosure of fee-related information. Can the auditor of the PIE audit client A still meet the disclosure requirement in paragraph R410.31?**

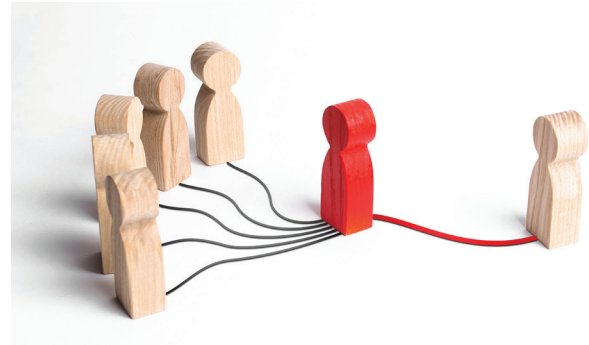
- A. As a first step, applying paragraph R410.30, the firm should discuss with TCWG of the audit client the benefit to the client's stakeholders of the client making the disclosure of the fee-related information, provided that there are no confidentiality laws in jurisdiction J1 that would restrict disclosure by the client.

If the client does not disclose the fee-related information and there are no confidentiality laws that would restrict the disclosure of fee information, the firm still must comply with paragraph R410.31, except with respect to the fees paid to the network firm in J2.

Therefore, the firm will disclose all fee-related information set out in paragraph R410.31 relevant to the firm and other network firms that have provided services to the PIE audit client and consolidated controlled related entities other than subsidiary B, provided there are no confidentiality laws that would restrict disclosure with respect to those other related entities. The firm may note in its disclosure that the fee-related information regarding subsidiary B is not available for inclusion in the disclosure because of the confidentiality laws in jurisdiction J2.

**Q25. The engagement contract includes a negotiated clause that requires a firm to maintain the confidentiality of an audit client's fee-related information at all times. If the client refuses to waive this confidentiality restriction for the firm to comply with the disclosure requirement in paragraph R410.31, what should the audit firm disclose or do?**

- A. The Code requires firms to comply with the principle of confidentiality. Confidentiality serves the public interest because it facilitates the free flow of information between the client and the firm in the knowledge that the client's confidential information will not be disclosed to a third party. However, in paragraph 114.1 A1, the Code specifies situations in which firms are or might be required to disclose confidential information or when such disclosure might be appropriate. One of these situations is when there is a professional duty or right to disclose, when not prohibited by law or regulation, to comply with technical and professional standards, including ethics requirements. The public disclosure requirements in Section 410 are an example of such a situation.



Accordingly, if a client intends to include a confidentiality clause that would restrict the disclosure of fee-related information in an engagement contract with a firm, it would be advisable for the firm to explain that such a clause cannot be included in the contract because of the Code's requirements. If the client insists on the inclusion of this confidentiality clause in

the contract, the firm would not be able to comply with the Code. Therefore, the firm would be precluded from providing the service, unless the client also agreed that the fee-related information would in fact be disclosed.

For existing contracts signed before the fee-related provisions come into effect, firms should consider whether amending such contracts is advisable or practicable. If a firm is otherwise considering overriding the contractually negotiated confidentiality clause in order to comply with Section 410, the firm should seek appropriate legal advice before doing so.

**Q26. Paragraph 410.31 A3 sets out various ways through which a firm might make public disclosure of fee-related information for a PIE audit client in compliance with paragraph R410.31. Does the IESBA have a preference for one way over another?**

- A. In paragraph 410.31 A3, the Code provides several examples of ways to disclose fee-related information if the PIE audit client does not do so, assuming there are no confidentiality laws that would restrict such public disclosure. Firms might also identify other ways to do so. Which way would be the most suitable would depend on the client’s and firm’s circumstances. For example, when there is a practice for the firm to issue a written communication to shareholders, or where the firm issues a transparency or audit quality report, the firm could determine to use one of these options to make the disclosure instead of, for example, in the audit report. Firms’ considerations may also be informed by discussions with their audit clients regarding public disclosure. The overriding considerations are the timeliness and accessibility of the disclosure to stakeholders.

While there is no requirement that a firm choose only one way to effect public disclosures, firms may find it advisable for efficiency and consistency reasons to minimize the diversity of the ways in which they make the public disclosures.

In conclusion, the IESBA has no preference for any particular way of disclosure of fee-related information. Firms should exercise professional judgment to determine which method would best achieve the objective of the Code’s provisions regarding enhanced transparency.

**Q27. According to paragraph 410.31 A3, if a PIE audit client does not disclose the relevant fee-related information, the firm may use the auditor’s report as one of a number of suitable ways for making such disclosure. If that is the case, what specific part of the auditor’s report could the firm use for the disclosure?**

- A. Based on input from the IAASB, if the firm determines to disclose the fee-related information in the auditor’s report, it would be appropriate to do so as part of the auditor’s other reporting responsibilities<sup>10</sup> in accordance with ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements.

**Q28. Besides the example of a letter to the shareholders, what other ways of public disclosure does the Code contemplate under “targeted communication to specific stakeholders” in paragraph 410.31 A3?**

- A. The IESBA noted that its primary aim is to achieve disclosure by the client. In the event the information is not disclosed by the client, the IESBA believes it is important to provide flexibility for firms to determine the best way for targeted communications with stakeholders while having regard to the overriding considerations of timeliness and accessibility of the information to stakeholders. The IESBA agreed that it is necessary to allow practice to evolve and for the market to eventually settle on some best practices.

National laws and regulations or certain pre-existing best practices at a jurisdictional level may also provide possibilities for targeted communications to stakeholders.

IESBA Staff envisions that there might be dialogue among firms, regulators, national standard setters and professional bodies at the jurisdictional level to identify other ways of targeted communications to stakeholders that would meet the Code’s enhanced transparency objective.

10. Paragraphs 43 to 45 of ISA 700 (Revised)

**Q29. In jurisdiction X, a PIE audit client is required to prepare financial statements as a single entity (“standalone financial statements”) in addition to group financial statements. A firm expresses an audit opinion on both the group financial statements and the standalone financial statements of the PIE audit client. Suppose the PIE audit client does not publicly disclose the relevant fee-related information. Does paragraph R410.31 require the firm to disclose the fees for the audit of both the group financial statements and the standalone financial statements, assuming there are no confidentiality laws restricting such disclosure?**

**A. I. Disclosure of fees for the audit of the financial statements at the group level**

Yes, at the group level, paragraph R410.31 requires the firm to disclose the fees for the audit of both the group financial statements and the standalone financial statements if the client does not make the public disclosure.

The IESBA recognizes that local practice may have developed over time in terms of how firms disclose fees for the audits of both group financial statements and the financial statements of single entities. The IESBA did not intend through the revised provisions to undo established local disclosure practices.

Therefore, if the client does not publicly disclose the fee-related information, the firm should obtain an understanding of all the relevant facts and circumstances (including any relevant national laws and regulations and disclosure practices) to determine how best to achieve the objective of transparency of fee-related information and comply with the Code’s principles-based provisions. For example, the firm may determine to disclose the fees for the audits of both the group financial statements and the standalone financial statements together under paragraph R410.31(a). Alternatively, following established local practice, the firm may determine to disclose the fee for the audit of the group financial statements under paragraph R410.31(a) and the fee for the audit of the standalone financial statements under paragraph R410.31(b).

Similarly, the firm may decide to disclose audit fees in the aggregate under paragraph R410.31(a) when the firm audits the group financial statements and the financial statements of controlled consolidated related entities as single entities within the group. Alternatively, the firm may decide to disclose

the fee for the audit of the group financial statements under paragraph R410.31(a) and the fees for the audits of the financial statements of the controlled consolidated related entities as single entities under paragraph R410.31(b).

**II. Disclosure of fees for the audit of the financial statements at the single entity level**

As the firm expresses an opinion on the financial statements of the parent entity as a single entity, paragraph R410.31 also applies to the firm as the auditor of the parent entity. To avoid duplication of effort to collect and disclose the same information, paragraph R410.32(a) provides an exception for firms not to disclose the fee-related information for a parent entity that prepares financial statements as a single entity as this information will be part of the public disclosure relating to the group financial statements.<sup>11</sup>

This exception is available only for public disclosure of fee-related information. When it comes to communication with TCWG about the fee-related information relating to the group financial statements and the standalone financial statements, TCWG of the parent entity will by definition be the same as for the group. Therefore, it is unnecessary for the Code to provide a similar exception with respect to communication with TCWG.

**Q30. A firm that is the auditor of a PIE audit client and other firms within the same network provide audit and other services to the related entities of the PIE audit client. Assuming the PIE audit client does not make any public disclosure of the relevant fee-related information, and assuming there are no confidentiality laws restricting public disclosure by the firm, does the firm have to publicly disclose the fees for audit and other services provided to:**

- (a) Any subsidiaries of the PIE audit client?**
- (b) The parent entity of the PIE audit client?**
- (c) Any sister entity of the PIE audit client?**

**A.** The table below provides an overview of the requirements on fee disclosure according to the type of services for which fees are paid and the related entities of the audit client to which the firm or network firms charged them.

11. This option is available only if the firm or a network firm expresses an opinion on the group financial statements.

	Fees for audit of the financial statements	Fees for services other than audit
(a) Subsidiaries of the PIE audit client	<p>If the audits of the financial statements of the subsidiaries are for purposes of the group audit, disclose as part of the fees paid or payable to the firm and network firms for the audit of the group financial statements (paragraph R410.31(a))</p> <p>If the audits of the financial statements of the subsidiaries are audits of single entities (for example, for statutory audit purposes), disclose based on paragraph R410.31 (a) or (b) as explained under Q29.</p>	Disclose based on paragraph R410.31(b)
(b) Parent entity of the PIE audit client	No requirement for disclosure	No requirement for disclosure
(c) Sister entity of the PIE audit client	No requirement for disclosure	No requirement for disclosure

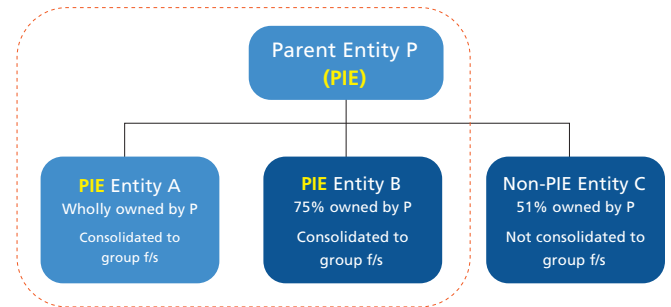
**Note to (a)**

If the client does not disclose the fee-related information, paragraph R410.31(b) requires the firm to publicly disclose information on all fees 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 only include fees charged to the client and its related entities over which the client has direct or indirect control (i.e., subsidiaries) that are consolidated in the financial statements on which the firm will express an opinion.

In some circumstances, such as in private equity complexes, the financial statements of a subsidiary might not be included in the consolidation. In these circumstances, paragraph R410.31(c) requires the firm to publicly disclose any fees charged to that subsidiary when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence. Paragraph 410.31 A2 provides guidance for the firm to determine whether such fees, individually and in the aggregate, are relevant to this evaluation.

**Q31. A firm is the auditor of a PIE audit client P. The firm is also the auditor of PIE audit client A (which is an intermediate group wholly owned by P), PIE audit client B (which is 75% owned by P), and non-PIE audit client C (which is 51% owned by P). Both A and B are consolidated into the group financial statements prepared by P. However,**

**C is not consolidated into P's group financial statements. In addition, the firm audits the financial statements of P and A as single entities. Some network firms are involved in the audit of A's group financial statements. If the client does not disclose the relevant fee-related information, what should the firm publicly disclose with respect to P, A, B and C in accordance with paragraph R410.31, assuming there are no confidentiality laws restricting such disclosure?**



**A. The firm's responsibilities for disclosure as the auditor of Entity P**

In relation to the group financial statements, the firm is required under paragraph R410.31(a) to disclose the fees paid or payable to the firm and network firms for the audit of the group financial statements. (See also Q29.)

Paragraph R410.31(b) requires the disclosure of fees, other than those disclosed under paragraph R410.31(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. For this purpose, such fees 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. Paragraph R410.31(c) requires the disclosure of fees charged to related entities that are not included in the consolidation if the firm knows or has reason to believe that such fees are relevant to the evaluation of the firm's independence.

Accordingly, the firm will need to publicly disclose the following:

- ▶ Fees paid or payable to the firm and network firms for the audit of the group financial statements of Entity P.
- ▶ Fees other than those disclosed under paragraph R410.31(a) for services provided to Entities P, A and B by the firm or a network firm.

- ▶ Fees other than those disclosed under paragraph R410.31(a) and (b) for services provided to Entity C by the firm or a network firm if the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm’s independence.

The disclosure requirements in paragraph R410.31 are also applicable to the firm as the auditor of the financial statements of Entity P as a single entity. However, to avoid duplicating the disclosure efforts, paragraph R410.32(a) provides an exception for the firm not to disclose separately the fee relating to the audit of the financial statements of Entity P as a single entity since it is already included in the disclosure relating to the group financial statements. (See also Q29.)

**The firm’s responsibilities for disclosure as the auditor of Entity A**

Given that the firm also audits the group financial statements of Entity A, paragraph R410.31 also applies with respect to that audit as Entity A is a PIE. However, as Entity A is a wholly-owned subsidiary, paragraph R410.32(b) provides an exception to avoid duplicating the disclosure of the same information in the group financial statements of P and A.

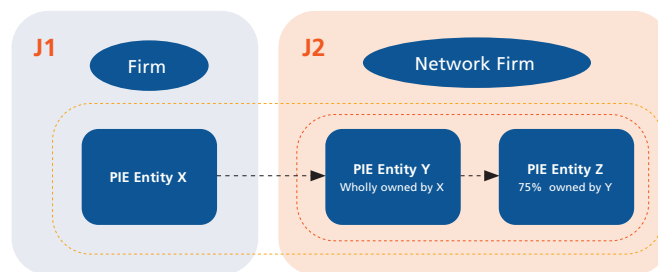
**The firm’s responsibilities for disclosure as the auditor of Entity B**

Given that the firm also audits the financial statements of Entity B, paragraph R410.31 also applies with respect to that audit as Entity B is a PIE. However, as Entity B is not a wholly-owned subsidiary, the exception under paragraph R410.32 (b) does not apply. Given that there are other shareholders in Entity B, it would not be appropriate to withhold the fee-related information from them. Accordingly, the firm will need to comply with paragraph R410.31 fully.

**The firm’s responsibilities for disclosure as the auditor of Entity C**

As Entity C is not a PIE, paragraph R410.31 does not apply. So, with respect to the audit of the financial statements of Entity C, there are no public disclosure requirements regarding fees paid or payable by Entity C for services provided by the firm or a network firm.

**Q32. A firm is the auditor of a PIE audit client X in jurisdiction J1. A network firm is the auditor of another PIE audit client Y in jurisdiction J2. Y is wholly owned by X. The same network firm is the auditor of PIE audit client Z in jurisdiction J2. Z is 75% owned by Y and is consolidated into the group financial statements prepared by Y. Y in turn is consolidated into the group financial statements prepared by X. If X, Y and Z do not disclose the relevant fee-related information, what should the firm and network firm publicly disclose with respect to X, Y and Z in accordance with paragraph R410.31?**



**A. (a) Disclosure by the firm**

Based on paragraph R410.31(a), the firm is required to disclose the fees paid or payable for the audit of the group financial statements prepared by Entity X. (See also Q 29.)

Paragraph R410.31(b) requires the disclosure of fees, other than those disclosed under paragraph R410.31(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. For this purpose, such fees 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.

Entity Y and Entity Z are controlled entities of the PIE audit client X and are included in the consolidated financial statements of X. Therefore, the firm has to disclose the fees for services other than the audit of the group financial statements of X provided to Entities X, Y and Z by the firm and the network firm. This includes:

- ▶ Fees paid to the network firm for the audit of the group financial statements prepared by Entity Y.
- ▶ Fees paid to the network firm for the audits of the standalone financial statements of Entities Y or Z as single entities.

- ▶ Fees for any other services provided to Entities X, Y or Z by the firm or the network firm.

**(b) Disclosure by the network firm**

To avoid duplicating the disclosure efforts, paragraph R410.32(b) provides an exception to the public disclosure requirements for firms if the entity is wholly-owned by another PIE provided that:

- ▶ The entity is consolidated into the group financial statements prepared by that other PIE; and
- ▶ The firm or a network firm expresses an opinion on those group financial statements.

As Entity Y is a wholly-owned entity consolidated in the group financial statements prepared by Entity X, and a firm from the same network is expressing an opinion on those group financial statements, the network firm may use the exception under paragraph R410.32(b). In that case the network firm need not disclose the fee-related information required by paragraph R410.31 in relation to audit of the group financial statements of Entity Y (including any fee charged in relation to the audit of Entity Z as a component) and any aggregate fees for other services provided to Entity Y and Entity Z. This information, as described above, will be made available by the firm in relation to the group financial statements prepared by Entity X.

However, paragraph R410.32(b) does not provide an exception for firms if the subsidiary is not a wholly-owned entity, given the presence of minority shareholders (please see Q31). As Entity Z is not wholly-owned by Entity Y, the network firm is required to disclose the fee-related information set out in paragraph R410.31 separately at a single entity level in relation to Entity Z.

**Q33. Paragraph R410.27 provides an exception to communicating fee-related information to TCWG for a PIE (say Entity B) wholly-owned by another PIE (say Entity A), provided that (i) the entity is consolidated into group financial statements prepared by that other PIE; and (ii) the firm or a network firm expresses an opinion on those group financial statements. What was IESBA’s rationale for providing an exception to disclosing fee-related information to TCWG of a PIE if it is wholly-owned by another PIE?**

- A. In establishing the exception, the IESBA has sought to avoid mandating multiple fee-related disclosures to TCWG in situations where there are more than one PIE within a group and where one PIE is wholly-owned by another PIE within the group. In this regard, the references to “another” PIE and “that other” PIE in paragraph R410.27 refer to the PIE parent (Entity A).

If Entity B and Entity A are both PIEs, the requirement to communicate fee-related information to TCWG applies to the firm (or a network firm) as the auditor of the group financial statements of Entity A and the auditor of the financial statements of Entity B. If Entity B is wholly-owned by Entity A, TCWG of Entity A have the necessary authority to exercise appropriate governance over Entity B, including seeking fee-related information with respect to Entity B, to fulfill their governance responsibilities. Accordingly, paragraph R410.27 exempts the disclosure of the fee-related information of Entity B to TCWG of Entity B, unless the firm is explicitly asked to do so by the latter.

However, if Entity B is not wholly-owned by Entity A, it would not be appropriate to assume that TCWG of Entity A can or should represent the interests of any minority shareholders of Entity B. Therefore, the exception in R410.27 is not applicable for PIEs that are not wholly-owned.

## About the IESBA

The IESBA is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

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