

## AGENDA PAPER

**Item Number:** 2  
**Date of Meeting:** 16 November 2020  
**Subject:** Update on IESBA EDs on Non-Assurance Services and Fees

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Action required     For discussion     For noting     For information

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### Purpose

To update the Board on the current status of the exposure drafts issued by the International Ethics Standards Board for Accountants (IESBA) concerning Non-Assurance Services and Fees.

### Background

The IESBA has been working on projects relating to Non-Assurance Services (NAS) and Fees since 2018.

In January 2020, the IESBA released the following Exposure Drafts:

- [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (the NAS ED) – comments due 4 May 2020;
- [Proposed Revisions to the Fee-related Provisions of the Code](#) (the Fees ED) – comments due 4 May 2020; and

APESB also carried out two Australian stakeholder engagement activities in April 2020 that gathered valuable input to inform APESB's following submissions to IESBA, which were submitted in May and June 2020:

- [APESB Submission to IESBA on proposed amendments to Fee-related provisions of the Code](#);
- [APESB Submission to IESBA on proposed amendments to the Non-Assurance Services provisions of the Code](#).

The IESBA received 66 comment letters for the NAS ED and 64 comments letters for the Fees ED from global stakeholders. IESBA considered a high-level summary of the key issues at its July 2020 meeting, and a comprehensive analysis was considered at its September 2020 meeting.

IESBA also presented on these two projects at the October 2020 IESBA National Standards Setters meeting. APESB attended this meeting and provided further input to inform the respective taskforces' deliberations.

## **Key Considerations**

### Summary of Global feedback on the NAS proposals

On balance, respondents across stakeholder groups and regions expressed clear support for the NAS proposals. However, there were some reservations expressed, as well. A summary of the key matters is noted below:

- The IESBA's approach and focus on responding to concerns about "independence in appearance" may result in Code, over time, becoming more "rules-based";
- Some respondents believed that the project should be delayed due to the COVID-19 pandemic and the completion of the definition of a Public Interest Entity (PIE) project. There were also concerns expressed about the scale and pace of change in respect of the independence requirements of the Code;
- Numerous drafting suggestions to enhance the prohibition on NAS that will create a self-review threat in the case of an audit client that is a PIE, but some respondents also expressed concern on the impact on smaller PIEs;
- The majority of the respondents supported the withdrawal of "materiality" as a conditionality in specific NAS prohibitions;
- Some respondents expressed a view that materiality should be a factor in determining the likelihood that the result or outcome of a NAS that will affect or impact the accounting records, or internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
- Some stakeholders expressed concern concerning the prohibition of providing advice and recommendations that will create a self-review threat to PIE audit clients when such advice/ recommendation is permissible under local laws, regulations or applicable auditing standards;
- A stakeholder also noted the practical challenges and inefficiencies created when applying multiple different independence standards and when auditors and their clients have to determine which set of independence provisions is more restrictive. It was recommended that over time it is best to converge on a single set of common and robust independence standards which ideally could be the independence requirements in the Code;
- Regulatory stakeholders, including the MG members, questioned the qualification of the proposed provisions relating to firm communications to TCWG about NAS, including obtaining concurrence. There is a view that the provisions should: (i) apply to parent undertakings of PIEs (listed or unlisted); and (ii) extend to entities that the PIE audit client does not directly or indirectly control.
- Some regulatory stakeholders have raised concerns over the appropriateness of using professionals from the same firm as a safeguard.

### Summary of Global feedback on the Fee proposals

Respondents generally supported the need to strengthen fee-related provisions in the Code and the direction of the proposed changes. A summary of the key matters is noted below;

- Respondents noted the impact of the revision of the PIE project's definition, and some suggested that IESBA finalise the PIE project first before finalising on the Fees and NAS proposals.
- Similar to the responses in the NAS ED, some respondents were concerned that the changes resulted in a move away from a principles-based Code to a rules-based Code;
- There was a general acknowledgement from respondents that there is a self-interest threat to Independence created by the audit client payer model;

- Some respondents noted that the role played by Those Charged with Governance (TCWG) in overseeing the appointment and remuneration of auditors does mitigate the self-interest threat noted above. In addition, it was pointed out by respondents that risks are addressed through compliance with regulatory requirements, quality management standards and the Code;
- Respondents supported the position the audit fee is a standalone fee and must not be influenced by other services provided by the auditor;
- There was general support that a large proportion of fees for services other than audit might create independence threats. Also, regulators supported the inclusion of a specific threshold for fees for other services provided by the external auditor while most respondents did not support such a threshold;
- Stakeholders also provided suggestions for more granular determination of audit-related services required by law or regulation;
- Many respondents were concerned about the threshold (30%) for fee dependency for Non-PIE Audit clients and the impact it may have on the SMP sector;
- The majority of respondents supported the enhanced provisions dealing with the fee dependency (threshold of 15%) for PIE audit clients but were concerned about the requirement to cease to act as an auditor after 5 years if the fee dependency continues;
- Global stakeholders supported the enhanced provisions to disclose fee-related information of a PIE audit client to TCWG and the public, but there were some reservations on the manner it needs to be achieved;

## **Way forward**

The IESBA Taskforces on NAS and Fees project are working through global feedback noted above. They are undertaking targeted stakeholder consultations with regulators, forum of firms, National Standards Setters and the IFAC SMP Advisory Group during October and November 2020. After that, it is expected that IESBA will consider the final proposed standards at its December 2020 Board meeting.

The IESBA has indicated that these revised standards will only be effective after December 2022. This period takes into account the impact of COVID-19 and the likely completion date of the PIE project. This timeline will enable all the proposed revisions from these three projects to be effective from the same date.

Subject to IESBA's finalisation of these documents at its December 2020, APESB can develop exposure drafts for the Board's consideration at its March 2021 Board meeting.

## **Staff Recommendation**

The Board note the summaries of the global feedback on the IESBA EDs on NAS and Fees and the likely timeline for the consideration of Australian EDs in the first quarter of 2021.

## **Materials Presented**

**Authors:** Jacinta Hanrahan  
Jon Reid

**Date:** 31 October 2020