

## AGENDA PAPER

**Item Number:** 9

**Date of Meeting:** 26 November 2021

**Subject:** Project update: Proposed revision to APES 110 for Fee-related provisions of the Code.

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Action required

For discussion

For noting

For information

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### Purpose

To provide an update to the Board on the due process for the exposure draft proposing revisions to the fee-related provisions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

### Background

In January 2016, the International Ethics Standards Board for Accountants (the IESBA) released the Staff Publication, [Ethical Considerations Related to Audit Fee Setting in the Context of Downward Fee Pressure](#), which considered matters relating to fees and the impact it has on the ethical behaviour of professional accountants. The IESBA subsequently approved a [Fees Project Proposal](#) in September 2018 and released an Exposure Draft in January 2020.

APESB carried out two Australian stakeholder engagement activities in April 2020 that gathered valuable input to inform the [APESB's Submission to IESBA on Proposed Revisions to the Fee-related Provisions of the Code](#).

At the November 2020 Board meeting, APESB Technical Staff provided the Board with an update on the IESBA's Fees Exposure Draft and a summary of global feedback on the proposals (refer to [Agenda Item 2](#)).

While these developments were taking place internationally, locally in 2019, the PJC Inquiry commenced considering audit regulation in Australia. The PJC held public hearings in 2019 and 2020 and subsequently issued an interim report in February 2020.

The Final Report of the PJC was released in November 2020, which reconfirmed the recommendations set out in the Interim Report. At the date of writing this report, the Federal Government is yet to release a response to the PJC's recommendations.

At the March 2021 Board Meeting, the Board considered a preliminary draft of the APESB Exposure Draft proposing amendments to the Code. The preliminary Exposure Draft was based on the final text of the revisions approved by IESBA at their November/December 2020 Board Meeting. The text and final standard were to be considered and approved by the PIOB in April 2021.

On 28 April 2021, the IESBA issued the final pronouncement: *Revisions to the Fee-related Provisions of the Code*. The changes are to the provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) and are effective from 15 December 2022.

At the April 2021 Board meeting, the Board approved the issue of Exposure Draft (ED) 03/21 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*. The ED was released on 28 May 2021 and the comment period for the exposure draft closed on 31 August 2021.

## **Key Considerations**

APESB received 19 submissions in response to ED 03/21. The submissions were made by a broad range of respondents, including small-to-medium-practices (SMPs), mid-to-large accounting firms, professional organisations and regulators. Of note, there were six submissions made by SMPs which mainly focused on the proposal to introduce a threshold in the requirement on fee dependency on a referral source.

Technical Staff are in the process of analysing the comments received and considering the recommendations made by respondents. There were three issues raised by a number of the respondents. This paper sets out a high-level summary of those three issues and the associated action undertaken to date by APESB Technical Staff.

The common key issues raised in the submissions are set out in the sections below.

### **(a) The proposed threshold to assess fee dependency from a referral source**

The proposals in relation to introducing a 20% threshold (rather than using the term 'a large proportion') to assess fee dependency from a referral source at a firm, an office or a partner-level were raised in 15 of the 19 submissions received.

The respondents' views were mixed, with respondents generally supportive of the provision of guidance, but there were concerns about how the requirements would be implemented and enforced in practice. The concerns included:

- The level of the percentage specified for the threshold. In particular, does the evidence support a 20% level and would a 30% threshold be more appropriate (to align with another fee dependency threshold in the fee provisions for non-PIE audit clients ).
- How the requirement should be implemented in practice – is the percentage a red flag or a hard line in the sand? Some respondents were concerned about how regulators would enforce this and whether mandatory safeguards (such as appointing an appropriate reviewer) must be implemented once the threshold is met.
- The impact on SMPs, especially sole practitioners, and whether this requirement is too onerous or will cause hardship.
- The lack of a specific time frame for dependency or guidance on the timing of the review. Respondents thought a timeframe would clarify how the requirement should be applied and could also consider the business cycle of firms, in particular new auditors who are building their business or auditors who are starting to wind down their business.
- The need for additional guidance on what is a referral source and how long that consideration stays in place.
- The need for additional guidance on the role of an appropriate reviewer and who can undertake that role.

In light of the broad range of concerns raised by SMSF audit practitioners, APESB Technical Staff have been engaging with stakeholders on the proposed amendments to the fee dependency threshold for a referral source.

The stakeholder engagement has been primarily focussed on SMPs and obtaining a practitioner's perspective to help inform the position to be implemented in the Code. Refer to agenda item 9(a) for the list of stakeholder engagement that has occurred to date. Further engagement with stakeholders on this matter, and other issues raised in the submissions, is planned for December 2021 through to February 2022.

APESB Technical Staff met with the regulators, ATO and ASIC, on 16 November 2021 to discuss the concerns raised in the submissions. The discussion also covered matters, such as reciprocal audits, which were raised during the stakeholder engagement undertaken by APESB Technical Staff. The regulators have agreed that further discussions on these matters are required, and they will meet again with APESB Technical Staff in the coming months.

#### **(b) Inclusion of fee categories**

Respondents were generally supportive of the proposed categories of services but were concerned that the proposed revisions to include fee categories in the Code would place the requirement to disclose fees on the auditors rather than on Those Charged with Governance of the entity. Several respondents also suggested that APESB should work with the Australian Accounting Standards Board (AASB) to ensure the fee disclosures are set out in the accounting standards.

In 2020, the FRC established a working group to discuss how to address recommendations raised as part of the Parliamentary Joint Committee (PJC) Inquiry into the regulation of auditing in Australia. The AASB, AUASB, and APESB are part of this working group. The disclosure of the different fee categories has been discussed at these meetings. The AASB will establish disclosure requirements for the accounting standards for the entity and APESB will develop guidance for auditors.

APESB's Chairman Nancy Milne OAM, and CEO Channa Wijesinghe, provided an update on APESB's strategies, work program and the fees project to the AASB at their Board Meeting on 11 November 2021. APESB Technical Staff will continue to work with the AASB's Technical Staff to ensure consistency with the fee categories to be included in the accounting standards and the Code.

#### **(c) Strengthening of the Audit partner incentivisation requirement**

Respondents were generally supportive of the proposal to strengthen the audit partner incentivisation requirement. However, it was suggested that further clarity is required on the concept of indirect incentives and whether this provision impacts a partners' responsibilities to their firm.

APESB Technical Staff have had some engagement with respondents to date and are planning further engagement to determine any impediments to implementing these revised requirements.

## **Way forward**

Technical Staff propose the following way forward:

- Continue to engage with stakeholders and consider whether any further revisions are required to the Fee-related provisions of the Code;
- Monitor developments relating to the final report of the PJC Inquiry and the Government's response and consider amendments to the Code, if any; and
- Seek the Board's approval to issue an Amending Standard to the Code relating to Fees at the March 2022 Board Meeting.

## **Staff Recommendations**

That the Board note and discuss the update on the project to revise the fee-related provisions of the Code.

## **Materials Presented**

Agenda Item 9 (a) Referral source fee dependency - Stakeholder Engagement List

**Authors:** Channa Wijesinghe  
Jacinta Hanrahan  
Rachael Tiong

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