



Project:	Audit Engagement-related Disclosures	Meeting	AASB June 2021 (M181)
Topic:	Auditor Remuneration	Agenda Item:	9.2
		Date:	7 June 2021
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		Decision-Making:	High
		Project Status:	Decide on the next steps

Objective of this paper

- 1 The objectives of this agenda paper are for the Board to consider the comparison of the auditor remuneration categories recommended by AASB Research Report 15 [Review of Auditor Remuneration Disclosure Requirements](#) (RR15), published by the AASB in December 2020 with those suggested by ASIC and APESB and decide whether to define audit services within each category and provide views on further project direction (PJC Recommendation 3a).¹

Staff analysis

- 2 AASB 1054 *Australian Additional Disclosures* requires entities to disclose the fees paid to their auditors for the audit/review of the financial statements and other services (see Appendix A for the current disclosure requirements in AASB 1054).
- 3 Auditor independence issues were highlighted as a major concern in the PJC report. The report examined two main issues persistently identified as threats to auditor independence: the provision of non-audit services and the perceived closeness of the auditor with the audited entity. To address these issues, the report recommended improving transparency of the remuneration received by auditors for non-audit services.
- 4 RR 15 recommended two approaches that could be considered to improve the quality of auditor remuneration disclosures in Australia when addressing the first component of PJC's recommendation 3:
 - a) extend the requirement in AAS to require separate disclosure of the nature and amount of each, albeit unspecified, type of non-audit services provided by the auditor.

¹ PJC Recommendation 3a is: The FRC and ASIC by the end of the 2020-21 financial year, oversee consultation, development and introduction under Australian Standards of defined categories and associated fee disclosure requirements in relation to audit and non-audit services.

Such an approach has the potential to improve transparency, however, it may not necessarily be as detailed or prescriptive as some of the other jurisdictions, namely Canada, Germany, the US and the UK;

- b) expand the specified categories of services that would need to be separately disclosed.
- 5 The Board (at its February 2021 meeting) agreed to proceed with the broader auditor remuneration categories proposed in RR15 as it will improve the level of transparency and clarity of the types and nature of non-audit services provided by the auditor. It will provide useful information to users interested in assessing risks to auditor independence and enhance comparability across Australian entities. The Board directed staff to develop a draft ED based on those categories subject to comparison with the categories recommended by APESB (see [Action Alert](#)).
- 6 The APESB discussed the final draft of proposed amendments to the fees-related provisions of the Code in its May 2021 meeting and approved the issuance of the Exposure Draft ED 03/21 *Proposed amendments to Fee related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the APESB ED). The [APESB ED](#) was issued on 28 May 2021 and is open for comment until 31 August 2021. If approved, the proposal will be effective for engagements beginning on or after 1 January 2023.
- 7 In November 2019, ASIC wrote a letter addressed to the Chair of the AASB (See Agenda paper 19.3 supplementary folder for the ASIC letter) noting enhanced disclosures on the categories of fees paid and payable to auditors may be of further assistance to users of financial reports in understanding the services provided by auditors to the entities that they audit. The categories proposed by ASIC were similar to categories proposed by APESB and recommended in RR15 (the main difference was that RR15 and APESB proposals included a separate category for tax services).
- 8 Staff have compared categories of auditor remuneration disclosures proposed by APESB with those recommended in RR15 in the table below.

Disclosures proposed in APESB ED	Disclosures recommended in AASB RR 15
a) Fees for Audit Services	a) Audit Services: continue requiring disclosure of remuneration for 'audit services' in financial statements, and provide a definition thereof
b) Fees for Audit-Related Services (based on FRC UK Ethical Standards 2019)	b) specify categories of the allowed 'non-audit services' and related remuneration that are required to be separately disclosed in financial statements, particularly by larger entities, namely: <ul style="list-style-type: none"> 'audit-related services'
c) Fees for Other Assurance Services (based on FRC UK Ethical Standards 2019)	<ul style="list-style-type: none"> 'other assurance services'
d) Fees for Tax Services (as adapted from APES 220 <i>Taxation Services</i>)	<ul style="list-style-type: none"> 'taxation services' (possibly with further breakdown)
e) Fees for Other Services (All other services provided by the entity's auditor that are not included in categories a-d above)	<ul style="list-style-type: none"> 'all other non-audit services' together with a description of the nature of the services included in each category

- 9 As presented in the table above, the categories that were proposed in the APESB ED are consistent with those recommended by RR15.
- 10 APESB has used [FRC UK Ethical Standards 2019](#) as a base when developing the categories with some modifications to suit the Australian context. The equivalent IESBA standards do not include these categories. These proposals by APESB were introduced for Australian entities only. RR15 also considered FRC UK Ethical Standards 2019 in the benchmarking exercise of the report.
- 11 As there are no significant differences between APESB's and RR15 proposed categories, staff suggest the draft ED include disclosure of audit remuneration for the following five categories of services;
- (a) Audit services;
 - (b) Audit-related services;
 - (c) Other assurance services;
 - (d) Tax services; and
 - (e) Other services.
- 12 RR15 also identified 11 issues (See Appendix B) that should be considered when developing definitions for audit and non-audit services fee disclosure requirements. Staff will consider the issues when developing the draft ED.
- 13 When comparing APESB proposals with RR 15 recommendations, staff noted that even though both APESB and RR15 suggest the same broader categories, APESB proposal includes a detailed description of services in each category, which RR15 did not provide. The purpose of RR15 was not to define the categories but to compare requirements in other jurisdictions in relation to 'defined categories and associated fee requirements in relation to audit and non-audit services'.
- 14 Definitions of services included in individual categories as proposed in the APESB ED are summarised in the table below.

Main Categories	Definitions/Type of services
1. Audit Services	<ul style="list-style-type: none"> • Audit Engagements² and audits of related entities for PIE clients³; • Audit Engagements and audits of related entities for which the client has direct or indirect control; and • Review Engagements⁴ in accordance with ASRE 2410 <i>Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity</i>
2. Audit-Related Services	<p>Services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:</p> <ul style="list-style-type: none"> • Reporting required to be provided by the external auditor by laws or regulations; • Reviews of interim financial information; • Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor’s report to ASIC on an Australian Financial Services licensee using Form FS 71); • Reporting to a regulator on client assets; • Reporting on government grants; • Reporting on internal financial controls when required by law or regulation; and • Additional audits or reviews performed on financial information and/or financial controls that have been authorised by Those Charged with Governance.
3. Other Assurance Services	<p>All Assurance Engagements other than (a) and (b) above. For example:</p> <ul style="list-style-type: none"> • audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus; • services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and <p>audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor’s report on the financial statements.</p>
4. Taxation Services	<p>Any Professional Activities performed by a Member relating to ascertaining a client’s tax liabilities or entitlements or satisfying their obligations under</p>

2 A reasonable Assurance Engagement in which a Member in Public Practice expresses an opinion whether Financial Statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with Auditing and Assurance Standards. This includes a statutory audit, which is an audit required by legislation or other regulation.”

3 A Public Interest Entity is (a) A Listed Entity*; or (b) An entity: (i) Defined by regulation or legislation as a public interest entity; or (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

4 As per the APESB Code: An Assurance Engagement, conducted in accordance with Auditing and Assurance Standards on Review Engagements or equivalent, in which a Member in Public Practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the Member’s attention that causes the Member to believe that the Historical Financial Information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.

	<p>taxation law, provided under circumstances where they can reasonably expect to rely on the Professional Activities.</p> <p>This includes:</p> <ul style="list-style-type: none"> • preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority’s requests for further information; • Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements; • provision of tax planning and other tax advisory services; and assisting a client in the resolution of tax disputes.
5. Other Services	Any service not covered in (1)–(4) above

15 Staff have considered whether the draft ED should include any specification of the services within each category listed out in paragraph 11 of this paper and identified the following three options:

Options	Advantages	Disadvantages
<p>Option 1</p> <p>Only provide categories of auditor remuneration in AASB 1054 and refer to the Code for the definitions and nature of services</p>	<p>The amendments to AASB 1054 will be more straightforward and could be finalised faster.</p>	<p>The definition of services in each category proposed by APESB would be included in Sections 410 of the Code, and therefore, the guidance would be disjoint.</p> <p>Definitions of services provided in the Code are a guide only and may not be enforceable in practice. Therefore, inconsistencies in disclosures could still exist.</p>
<p>Option 2</p> <p>Use the definitions of auditor services proposed by the APESB (see paragraph 14) as a base in developing the disclosure requirements in AASB 1054</p>	<p>The Board can leverage on the work that the APESB has already performed.</p> <p>Defining the services for each category in the Accounting Standards will ensure that the proposed requirements are complied with by the entities required to prepare financial statements according to AAS.</p> <p>Increase comparability of financial statements.</p> <p>AASB 1054 would contain complete guidance on auditor's remuneration.</p>	<p>Staff will have to monitor any subsequent changes to the fee related provisions in the Code.</p> <p>The amendments to AASB 1054 may be complex and will require additional time.</p> <p>The Board will have to consider consistent interpretation and application of the terms used.</p>
<p>Option 3</p> <p>AASB to define the services included in each category</p>	<p>No need to monitor the changes to the Code.</p> <p>AASB 1054 would contain complete guidance on auditor's remuneration.</p>	<p>Risk of inconsistencies between the Code and what is required by AAS for the same disclosure.</p> <p>May lead to diversity in practice.</p> <p>The amendments of AASB 1054 may be complex and will require additional time.</p> <p>The Board will have to consider consistent interpretation and application of the terms used.</p> <p>More staff time and resources are required.</p>

Staff recommendation

- 16 On balance, staff recommend that the Board proceed with **Option 2** (using the definitions of auditor services proposed by the APESB in the draft ED) as this option will keep both broader categories and the definitions of services included in those categories in one standard, and it will eliminate any risk of inconsistencies between different guidance/standard aiming to achieve similar objectives.

Question to Board members

Q1. Do Board members agree with the staff recommendation in paragraph 16? If not, what do Board members suggest?

Consider whether to comment on APESB ED

- 17 The APESB ED is open for comment until 31 August 2021. If approved, the proposed amendments will be effective for engagements beginning on or after 1 January 2023.
- 18 Staff have considered whether the Board should comment on this APESB ED, in particular, on the proposals in Part A Section AUST 410.29.1 A1, which defines the categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients (See Agenda paper 9.2). The staff suggest the Board to submit the following comments:
- (a) update on the work the AASB has done so far in response to PJC recommendation 3a; and
 - (b) update on the AASB's decisions at this meeting and timeline for any amendments to AASB 1054.

Question to Board members

Q2. Do Board members agree with the staff recommendation in paragraph 18?

- 19 If Board agrees with the staff recommendation in paragraph 18, staff recommend finalising and approving the comment letter out-of-session via the Chair considering the comment deadline of the APESB ED of 31 August 2021 and due to the fact that this submission would not include any technical analysis or material interpretation of pronouncements. Should the Board prefer, staff also consider the formation of a sub-committee of Board members would also be appropriate.

Question to Board members

Q3. Do Board members agree with the staff recommendation to approve the final comment letter to the APESB out-of-session via the Chair? If not, do Board members prefer to form a subcommittee to approve the final comment letter to the APESB?

Further considerations

- 20 The following aspects will also be considered by staff when developing draft disclosures on auditor remuneration:
- (a) the 11 issues identified for consideration in RR15 (see Appendix C);
 - (b) cost/benefit considerations (as RR15 recommends that any further breakdown of categories should be evaluated on the basis of cost and benefits);
 - (a) consequences of potentially not maintaining alignment of the disclosures with the NZ standards;
 - (b) the requirements in the [AASB Due Process Framework for Setting Standards](#) in relation to the proposed comment period considering the scope and urgency of the issue; and
 - (c) the appropriate, effective date for the recommended disclosures.
- 21 Furthermore, appropriate consideration will be given to the seven Regulatory Impact Assessment (RIS) questions of The Australian Government Guide to Regulation as per paragraph 4.2 of the AASB Due Process Framework for Setting Standards.

Question to Board members

Q4. Do Board members have any comments on the further considerations?

Appendix A

Current disclosure requirements in AASB 1054

Currently, there are no specific auditor remuneration disclosure requirements in the International Financial Reporting Standards (IFRS). However, AASB 1054 which sets out Australian-specific disclosures that are in addition to the requirements in IFRSs requires the following in relation to audit fees (as per paragraphs 10 and 11 of AASB 1054):

- a) An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:
 - the audit or review of the financial statements; and
 - all other services performed during the reporting period.
- b) An entity shall describe the nature of other services for all other services performed during the reporting period.

As per BC6 of AASB 1054, in 2010 via ED 200B Proposed Separate Disclosure Standards the AASB and the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants considered that the disclosure of audit fees is a matter of accountability and, given that the accountability environment is similar in both jurisdictions, they should have the same audit fee disclosure requirements. The Boards also took the opportunity to simplify the disclosure requirements on the basis that in recent times both preparers and users had indicated that disclosures in financial statements had become overly complex. Prior to the issuance of AASB 1054 in 2011, audit fee disclosures were included in AASB 101 Presentation of Financial Statements and required disclosure of auditor remuneration for each unspecified non-audit service.

Appendix B

Issues for consideration identified in RR15

1. *Consideration 1:* Given the AASB's deliberations on auditor remuneration requirements in 2010 (and the 2003 Corporate Law Economic Reform Program that resulted in auditor remuneration requirements in the Corporations Act), is it timely to review them now with the prospect of making them more prescriptive by, for example, requiring separate disclosure of the nature and amount of remuneration for specified categories of allowed non-audit services provided by the auditor?
2. *Consideration 2:* should a definition (or a defined scope) be developed for 'audit services'?
3. *Consideration 3:* should there be different Australian auditor remuneration disclosure requirements applicable to different types of entities? If so, how should the different types of entities be distinguished?
4. *Consideration 4:* should the scope of audit-related services be clarified and should auditor remuneration for audit-related services be required to be separately disclosed together with a description of the nature of the services?
5. *Consideration 5:* should disclosure of auditor remuneration for audit related services be further disaggregated into remuneration for: (1) audit related services that are impractical to be provided (or prohibited from being provided) by another auditor; and (2) audit-related services that could be reasonably performed by another auditor, with a description of the nature of the services?
6. *Consideration 6:* should auditor remuneration for taxation services be required to be separately disclosed with a description of the nature of the services?
7. *Consideration 7:* should disclosure of auditor remuneration for taxation services be further disaggregated into remuneration for (1) 'tax compliance services' (i.e. tax return preparation) and (2) 'other tax services' with a description of the nature of the services?
8. *Consideration 8:* should auditor remuneration for other assurance services be required to be separately disclosed with a description of the nature of the services?
9. *Consideration 9:* should disclosure of remuneration for other assurance services be further disaggregated into remuneration for: (1) other assurance services performed due to a regulatory or contractual obligation; and (2) other assurance services performed at the discretion of the entity with a description of the nature of the services?
10. *Consideration 10:* should auditor remuneration for internal audit services be required to be separately disclosed with a description of the nature of the services?
11. *Consideration 11:* should auditor remuneration for each of the other non-audit services not considered above be required to be separately disclosed, together with a description of their nature?