



Australian Government

**Australian Accounting
Standards Board**

AASB RESEARCH REPORT 15

REVIEW OF AUDITOR REMUNERATION DISCLOSURE REQUIREMENTS

December 2020



Principal Authors

Kylie Dumble – Practice Fellow – AASB

Ao Li – Project Manager – AASB

Robert Keys – Practice Fellow – AASB

Acknowledgements

The principal authors express special thanks to the following for their contributions to this Report:

- other AASB staff
- Australian Auditing and Assurance Standards Board (AUASB) staff
- Accounting Professional & Ethical Standards Board (APESB) staff

Any errors or omissions remain the responsibility of the principal authors.

AASB Research Report Series

The AASB Research Centre publishes the AASB Research Report Series, which promotes thought leadership in external reporting standard-setting and policy making through in-depth analysis of financial reporting issues and related empirical research.

Enquiries

Australian Accounting Standards Board
PO Box 204
Collins Street West,
Victoria, 8007
Australia
Tel: +61 3 9617 7637
Email: Publications@aasb.gov.au
Website: [Http://www.aasb.gov.au](http://www.aasb.gov.au)

Copyright

© Commonwealth of Australia 2020

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, no part may be reproduced by any process without prior written permission. Requests and enquiries concerning reproduction and rights should be addressed to the National Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.



Contents

Executive Summary	3
<i>Next steps</i>	4
1. Introduction	5
1.1 Scope of this Report	6
1.2 Methodology	8
1.3 Structure of the Report	9
2. Current Auditor Remuneration Disclosure Requirements in Australia.....	10
3. Comparison with Other Jurisdictions' Auditor Remuneration Disclosure Requirements.....	14
3.1 Remuneration for audit services	14
3.2 Remuneration for non-audit services.....	16
3.2.1 Disaggregation of non-audit services	16
3.2.2 Types of entities subject to the requirements.....	19
4. Possible Improvements to Australian Disclosure Requirements for Non-Audit Services.....	25
4.1 Overview of non-audit services in Australia	25
4.2 Possible options to expand the categories of 'non-audit services' required to be disclosed in Australia	26
4.2.1 Audit-related services	28
4.2.2 Non-audit services other than audit-related services	30
5. Concluding Comments	36
5.1 Disclosure of auditor remuneration for audit services	36
5.2 Disaggregation of auditor remuneration for non-audit services.....	36
5.3 Types of entities that should be subject to any new disaggregation requirements	38
Appendix 1: History of Auditor Remuneration Disclosure Requirements in Australia .	40
Appendix 2: Extracts of Auditor Remuneration Disclosure Requirements for Entities by Jurisdiction	50
Appendix 3: Other Possible Issues for Consideration	56

Executive Summary

Auditor independence is fundamental to any advanced economic system. The level and type of non-audit services provided by auditors to their audit clients could create perceived or actual conflicts of interest and therefore threats to independence. Related to that, concerns have been expressed in relation to the inadequacy of and inconsistencies in disclosures in financial statements about auditor remuneration for those services. The current Australian requirements relating to those disclosures have not been subject to significant review for nearly a decade.

In response, the Parliamentary Joint Committee on Corporations and Financial Services (PJC) has recommended, among other things, a review of those disclosure requirements. In particular, it has recommended the development and introduction of defined categories and associated remuneration disclosure requirements in relation to allowed auditor services.

This Report identifies factors that could be considered in implementing that PJC recommendation. It does this by analysing a combination of the following possible bases for improving the current Australian disclosure requirements having regard to cost/benefit considerations:

- information pertinent to assessing risks to auditor independence;
- other national jurisdictions' disclosure requirements (see Appendix 2 of this Report), contrasted with current Australian requirements;
- Australian ethical requirements in the Accounting Professional & Ethical Standards Board's (APESB) [*APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)*](#); and
- Australian-specific circumstances, including those identified in the Australian Auditing and Assurance Standards Board's (AUASB) Research Report 4 *The Provision of Non-Audit Services by Audit Firms in Australia: 2012–2018*, the Australian historic context (see Appendix 1 of this Report) and the Australian Accounting Standards Board's (AASB) transaction-neutral approach to accounting standard setting.

The comparison with overseas jurisdictions shows Australia currently requires disclosure of a relatively low level of disaggregation of auditor remuneration by type of allowed service (i.e. there is effectively no disaggregation required of remuneration for non-audit services in Australia except by listed companies, for which the categories are not specified) by a relatively broad range of entities.

Subject to confirmation that the current requirements are inadequate, one approach that could be considered as a basis for improving the quality of auditor remuneration disclosures in Australia is to:

- continue requiring disclosure of remuneration for 'audit services' in financial statements, and provide a definition thereof; and
- 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:
 - 'audit-related services';
 - 'taxation services' (possibly with further breakdown);
 - 'other assurance services'; and
 - 'all other non-audit services'

together with a description of the nature of the services included in each category.

This Report also identifies (in Appendix 3) other potential aspects of the current requirements that could be considered as a basis for improvements. They include, for example, whether the current requirements (including the terminology used) are consistently interpreted and applied, and

whether the Accounting Standards and *Corporations Act 2001* requirements could be better aligned.¹

Next steps

This Report could form the basis for the AASB to work collaboratively with regulators, other standard setters, users, preparers and other stakeholders to reach a clear, effective, broadly accepted and improved framework for financial reporting (and assurance) in Australia in respect of auditor remuneration disclosures.

1 Given the scope of this Report (described in section 1.1), the focus is on accounting standards and the Corporations Act 2001 because they prescribe auditor remuneration disclosure requirements. In the context of the PJC's considerations, it would also be relevant to more broadly consider whether the accounting, auditing and ethical standards and Corporations Act 2001 could be better aligned, but that is beyond the scope of this Report.

1. Introduction

The auditor remuneration disclosure requirements in Australia prescribed in Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB) were last substantially reviewed in 2010, when there was emphasis on simplification and harmonisation with New Zealand's requirements (see Appendix 1 of this Report for more details about the history of the current requirements). Given nearly a decade of implementation experience with those requirements, it is timely to revisit them and explore possible options for improvements in the context of the current environment and from a more international perspective.

This Report comes at a time of significant public debate about audit quality in Australia, including perceived or actual conflicts of interest that can arise from non-audit services being provided by auditors to their clients and pose a threat to auditor independence. In light of this debate, the Parliamentary Joint Committee on Corporations and Financial Services (PJC) undertook a review of the regulation of auditing in Australia. A number of submissions to that review expressed concerns about the level of non-audit services being provided by auditors and inconsistencies in related disclosures made in financial statements. In its submission, the AASB suggested the PJC consider whether changes to the auditor remuneration disclosure requirements would be desirable and support the AASB in applying its due process to address any potential amendments.² Consequently, the PJC issued [*Regulation of Auditing in Australia: Interim Report*](#) (Interim Report)³ in February 2020 and identified the provision of non-audit services by an auditor to an audited entity as one of a number of areas with the potential to compromise auditor independence and thereby adversely impact audit quality.⁴ It makes a number of recommendations, including Recommendation 3 (which is the impetus for this Report) as follows:

“... the Financial Reporting Council, in partnership with ASIC, by the end of the 2020-21 financial year, oversee the consultation, development and introduction under Australian standards of:

- defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and
- a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.”

The two components of Recommendation 3 are interrelated because any decisions about prohibited non-audit services will affect the range of allowed non-audit services about which disclosure requirements might pertain. Accordingly, determination of the list of prohibited services first, in response to the second component, could help inform the implementation of the first component.

2 See also the AASB's comments on the PJC's Terms of Reference 4 on pages 6 and 7 of the Appendix in the AASB's submission at https://www.aasb.gov.au/admin/file/content102/c3/AASB_Submission_PJC_Regulation_Auditing_10-19.pdf.

3 The PJC issued its Final Report in November 2020. Although the recommendations made in the Interim Report were not restated in the Final Report, paragraph 1.3 of Chapter 1 of the Final Report states the PJC stands by the recommendations in its Interim Report of February 2020. Accordingly, this Report refers to the Interim Report where relevant. The Government has not responded to the Final Report as at the date of this Report.

4 See Chapter 4 Threats to auditor independence of the PJC's Interim Report.

In Australia the provision of non-audit services by an auditor to its audit client, including prohibitions, is addressed by the *Corporations Act 2001* (Cth) (the Corporations Act)⁵ and by APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board (APESB). Of particular relevance is that APES 110 identifies the types of services that could create threats to auditor independence and those that are specifically prohibited from being provided by an auditor that is a member of one of the accounting professional bodies, a registered company auditor⁶ or a self-managed superannuation fund (SMSF)⁷ auditor. This Report refers to the current list of prohibited services in APES 110 when considering possible categories of allowed non-audit services for disclosure purposes in response to the first component of the PJC's Recommendation 3.⁸ Some of the specific matters raised for consideration in this Report might need to be revisited if implementation of the second component of the PJC's Recommendation 3 gives rise to changes to the current list of prohibited services.

1.1 Scope of this Report

Despite the interrelationship between the two components of the PJC's Recommendation 3, this Report focuses on considerations relevant to the first component. In particular, the content of this Report is intended to be used by the AASB to inform and support the work of the Financial Reporting Council (FRC) and the Australian Securities and Investments Commission (ASIC) in considering the introduction of enhanced auditors' remuneration disclosure requirements pertinent to the

-
- 5 The Corporations Act does not specifically prohibit certain non-audit services, rather it has a series of rules on conflicts of interest (see http://classic.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s324cd.html) and relevant relations (see http://www5.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s324ch.html). Section 300(11B) requires listed companies to include in their annual directors' report, among other things: "(b) a statement whether the directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by this Act; (c) a statement of the directors' reasons for being satisfied that the provision of those non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) did not compromise the auditor independence requirements of this Act."
 - 6 Paragraph 2.16 of the PJC's Interim Report states: "The APESB's pronouncements include APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (Code of Ethics). Auditing Standard ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements (ASA 102) requires auditors to comply with the ethical requirements in the APES 110 Code of Ethics. Accordingly, auditors are legally obliged to comply with the Code of Ethics for audits performed of entities subject to the Corporations Act."
 - 7 Under the Superannuation Industry (Supervision) Act 1993 and Superannuation Industry (Supervision) Regulations 1994.
 - 8 APESB is an independent, national body that sets the code of ethics and professional standards with which accounting professionals who are members of CPA Australia, Chartered Accountants Australia and New Zealand (CA ANZ) or Institute of Public Accountants (IPA) must comply. APESB is equally funded by CPA Australia, CA ANZ and the IPA. APES 110 is available at https://apesb.org.au/uploads/standards/apesb_standards/23072019020745_APES_110_Restructured_Code_Nov_2018.pdf. APESB has also published Independence Guidance (Fifth edition, May 2020), which is available at https://apesb.org.au/uploads/home/27052020043807_APESB_Independence_Guide_May_2020.pdf. It provides guidance on how to apply, the conceptual framework in Part 1, and Parts 4A and 4B of APES 110 to independence for audits, reviews and other assurance engagements. Furthermore, APESB has published APES 110 Code Prohibitions applicable to Auditors for all Audit and Review Engagements (August 2020), which is available at https://apesb.org.au/wp-content/uploads/2020/08/APES_110_Prohibitions_Audit_Clients_12_Aug_2020.pdf. It includes high-level summaries of APES 110 prohibitions relating to audit or review engagements.

recommendation in respect of ‘defined categories and associated fee requirements in relation to audit and [allowed] non-audit services’ (referred to throughout this Report as ‘the first component of PJC’s Recommendation 3’ or, where it is clear from the context, simply ‘the PJC’s Recommendation 3’).

Accordingly, considerations related to the second component of PJC Recommendation 3 (i.e. listing non-audit services that should be prohibited from being provided to an entity by that entity’s auditor) are outside the scope of this Report, although some aspects are addressed where particularly pertinent. Limiting the scope of this Report in this way does not imply there should be no articulation between any defined categories for disclosures relating to allowed non-audit services (the focus of this Report) and any list of prohibited services. Consistency between the requirements specified by the Corporations Act, AASB, the Auditing and Assurance Standards Board (AUASB) and APESB (in particular APES 110, which stipulates the prohibitions and other restrictions on non-audit services) would ensure the requirements for those who prepare financial statements align with the requirements for auditors.⁹

In addition to the second component of PJC’s Recommendation 3, the PJC Interim Report includes other recommendations pertinent to audit quality that could impact on disclosures in financial reports, such as Recommendation 6 regarding disclosure of auditor tenure. These other recommendations are also beyond the scope of this Report.

Another aspect related to the subject matter of this Report that is excluded from scope is whether the responsibilities of boards of directors and others charged with governance at audited entities for auditor independence issues should be changed. Under the current requirements boards (see for example section 300(11B) (b) and (c) of the Corporations Act, referred to above) need to effectively review and approve audit and other services. An aspect that is to become stricter in the IESBA Fees requirements, approved at its December 2020 meeting, is the requirement for the auditor to obtain approval from those charged with governance before carrying out the services.

Despite the relatively narrow scope, the nature of the research undertaken for the purpose of this Report resulted in the identification of a broader range of issues related to auditor remuneration disclosures. Accordingly, for completeness, this Report documents those other issues, without analysing them in detail or coming to definitive conclusions on them. Some of them might indicate potential areas for further consideration either at the time any changes to disclosure requirements are being made in response to Recommendation 3 or at a future time.

Consistent with the PJC being a committee on corporations and the reference to ASIC in Recommendation 3, this Report focuses on entities subject to the Corporations Act (and therefore also AAS). However, given the AASB’s transaction-neutral approach to standard setting, this Report also considers, albeit in less detail, the issues from other entities’ perspectives if they are required to prepare financial reports in accordance with AAS. Accordingly, this Report includes consideration of

⁹ In further acknowledging the interrelationship of the two components of PJC’s Recommendation 3, it is relevant to note there are expected to be changes to corresponding international ethical requirements based on two significant projects (Non-Assurance Services, and Fees) approved at the International Ethics Standards Board for Accountant’s (IESBA’s) December 2020 meeting (see <https://www.ethicsboard.org>). Once this decision has been processed by the IESBA, it is expected APESB will go through a due process on the international amendments to the Code on Non-Audit Services and Fees and consider whether any ‘Australian supplements’ are warranted (in particular the implications for APES 110 and associated material) during the first half of 2021. Many of the matters for consideration raised in this Report are expected to be informed by this ongoing APESB work.

not-for-profit entities that are subject to Australian Charities and Not-for-profits Commission (ACNC) requirements and public sector entities.¹⁰

This Report compares the auditor remuneration disclosure requirements applicable to Australian entities with the corresponding requirements in selected overseas jurisdictions. The purpose of the comparison is to identify best practice in relation to ‘defined categories and associated fee requirements in relation to audit and [allowed] non-audit services’ and thereby identify potential opportunities for improvements to those requirements in Australia. The selected overseas jurisdictions are Canada, Germany, Hong Kong, New Zealand, Singapore, South Africa, the United Kingdom (UK) and the United States (US).¹¹ The reason these particular jurisdictions were selected for the comparison is explained in the Methodology section 1.2 immediately below.

The focus of this Report is on current requirements in Australia and the selected overseas jurisdictions. However, to provide further Australian context, Appendix 1 of this Report provides a brief background and chronological history leading up to the current Australian requirements.

To provide additional context, where particularly relevant and readily accessible, the rationale for the auditor remuneration disclosure requirements in Australia and the other jurisdictions are also documented in this Report.

1.2 Methodology

The Australian and overseas jurisdictions’ legislative and regulatory requirements relating to auditor remuneration disclosures were identified, and are documented in Appendix 2 of this Report, and reviewed and summarised in the body of this Report.

There are some differences in the terminology used by the various jurisdictions to express their requirements, and therefore it is not always clear whether a difference in meaning is intended. In some cases, the differences do not necessarily imply a difference in meaning (for example, some use the term ‘fees’ whilst others use the term ‘remuneration’). In other cases the differences are significant, albeit subtle (for example, ‘audit fees’ compared with ‘auditor fees’ – where, for the purpose of this Report, the latter is taken to be a broader term, encompassing audit and non-audit remuneration of an entity’s auditor for all the services it provides to the audited entity). Indeed, even the term ‘auditor’ is open to interpretation as, conceivably, it could refer to, variously: the signing audit partner, the partner’s division within the firm or the entire firm.¹² In this Report a reference to ‘audit remuneration’ refers to an audit firm’s (and network firms’) remuneration for the audit of the financial statements of the entity. In contrast, ‘auditor remuneration’ refers to ‘audit remuneration’ and any other remuneration for any other services provided to the entity by the audit firm (and network firms) of the auditor of the financial statements (referred to in the PJC’s

-
- 10 The transaction-neutral approach to standard setting results in like transactions and events being accounted for in a like manner by all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so.
 - 11 It is notable the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) are not included in the comparison. This is because they do not specify auditor remuneration disclosure requirements, consistent with the fact many national jurisdictions specify auditor remuneration disclosure requirements in their company law or security law rather than in their accounting standards (as documented later in this Report).
 - 12 Despite this, although it is not explicitly articulated in the relevant requirements, it is apparent from their contexts that the requirements are referring to remuneration of the audit firm (and indeed in some cases even more broadly). Furthermore, a cursory review of some financial statements of the various jurisdictions that are the subject of this Report shows the disclosures relating to auditor remuneration in practice are at the level of audit firm (and network or associated firms), not the individual auditor or a particular division of the audit firm.

Recommendation 3 as fees for ‘non-audit services’). Accordingly, the terminology used in this Report is ‘remuneration’ unless citing requirements of particular jurisdictions, in which case their terminology is used.

Having documented the Australian and overseas requirements, the body of this Report goes on to compare the respective requirements with a view to identifying factors for consideration in developing improved auditor remuneration disclosure requirements in Australia.¹³

The overseas jurisdictions chosen for the comparison were selected for consistency with the approach taken in [AASB Research Report No. 7 Financial Reporting Requirements Applicable to For-Profit Private Sector Companies](#). Most if not all of these jurisdictions are comparable in terms of regulatory rigour and are therefore the jurisdictions traditionally compared with Australia in terms of financial reporting issues. The focus is on national jurisdictions rather than intra-national jurisdictions (e.g. states, territories, regions or provinces) on practical grounds and is consistent with the PJC’s focus on the Australian federal level.

The current versions of legislation and related documents were accessed from the relevant jurisdictions’ government legislation websites (hyperlinks are provided in Appendix 2). The staff of local standard setters and representatives of professional bodies were also consulted for the purposes of confirmation of the initial results and, where provided, the feedback has been incorporated into this Report.

1.3 Structure of the Report

The remainder of this Report is structured as follows:

- Section 2: Current Auditor Remuneration Disclosure Requirements in Australia
- Section 3: Comparison with Other Jurisdictions’ Auditor Remuneration Disclosure Requirements
- Section 4: Possible Improvements to Australian Disclosure Requirements for Non-Audit Services
- Section 5: Concluding Comments
- Appendix 1: History of Auditor Remuneration Disclosure Requirements in Australia
- Appendix 2: Extracts of Auditor Remuneration Disclosure Requirements by Jurisdiction
- Appendix 3: Other Possible Issues for Consideration

Specific numbered issues for consideration are identified in appropriate places throughout this Report. In particular:

- Consideration 1 relating to a threshold issue about the need to review the current requirements and Consideration 2 relating to a definition and scope of ‘audit services’ are in section 2;
- Consideration 3 relating to affected entities is in section 3;
- Consideration 4 to Consideration 11 relating to non-audit services are in section 4; and
- Consideration A3.1 to Consideration A3.6 relating to other matters are in Appendix 3.

13 The primary focus of this Report is on requirements in overseas jurisdictions rather than practice in Australia. Accordingly, this Report has not considered in detail the auditor remuneration disclosure categories ASIC developed with the largest six audit firms in early 2019 for the purposes of ASIC’s second report on *Audit quality measures, indicators and other information 2019-20 (Report 678 December 2020)*. However, for completeness, the current status of this matter is addressed briefly in section 5.2 of this Report.

They are provided as signposts to assist in navigating through the Report and identify the key issues that could form the basis for the AASB working collaboratively with regulators, other standard setters, users, preparers and other stakeholders to reach a clear, effective, broadly accepted and improved framework for financial reporting (and assurance) in Australia in respect of auditor remuneration disclosures.

2. Current Auditor Remuneration Disclosure Requirements in Australia

In Australia, sections 292 and 296 of the Corporations Act require a range of entities to prepare annual financial reports that comply with AAS. The types of entities are: disclosing entities; public companies; large proprietary companies; registered schemes; companies limited by guarantee; and, in limited circumstances, small proprietary companies¹⁴ and small companies limited by guarantee.

Some not-for-profit entities, e.g. charities, are subject to ACNC requirements. Medium and large charities must lodge annual financial reports. However, the type of financial statements prepared will depend on whether or not the charity is a 'reporting entity'.¹⁵ If a charity is a reporting entity and preparing Tier 1 general purpose financial statements (GPFS), then the entity must comply with AAS. According to the ACNC Annual Financial Report Checklist, disclosure of audit/review remuneration is optional for charities preparing GPFS under Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2 GPFS-RDR).¹⁶ If a charity is not a reporting entity, it can submit special purpose financial statements (SPFS) to the ACNC and "must apply, as a minimum, the following ... accounting standards: ... AASB 1054, *Australian Additional Disclosures*."¹⁷

In relation to public sector entities, AASB 1049 *Whole of Government and General Government Sector Financial Reporting* specifies the financial reporting requirements for Whole of Government (WoG) GPFS and General Government Sector (GGs) financial statements of each federal, state and territory government. AASB 1049 requires the WoG and GGs financial statements be prepared in a manner consistent with other applicable AAS, unless otherwise specified. Financial reporting requirements for government departments, local governments and other public sector entities (for

14 A small proprietary company that is controlled by a foreign company that is not a disclosing entity must comply with certain financial reporting requirements. For further details, see:

<https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/small-proprietary-companies/small-proprietary-companies-controlled-by-a-foreign-company-and-are-not-disclosing-entities/>.

15 'Reporting entity' is defined in AASB Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (paragraph 40) as "Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources". SAC 1 lays out three indicative factors relevant to determining whether an entity is a reporting entity and therefore whether it is required to prepare general purpose financial reports. The three factors are: 1) separation of management from economic interest (paragraph 20, SAC 1); 2) the economic or political importance of the entity and the potential for its activities to significantly impact the welfare of external parties (paragraph 21, SAC 1); and 3) the financial characteristics of the entity such as size and its relative level of indebtedness to external parties (paragraph 22, SAC 1).

16 [Annual Financial Report Checklist, ACNC Annual Financial Report: General and Special Purpose Statements](#)

17 [Special Purpose Financial Statements, ACNC Annual Financial Report: General and Special Purpose Statements](#)

example GGS agencies that are consolidated into WoG and GGS) are legislated through relevant regulations and/or in each state and territory.

The requirement for an entity to disclose in its financial statements its remuneration to its auditor for audit and non-audit services is contained in the following AAS issued by the AASB:

- AASB 1054 *Australian Additional Disclosures*, paragraphs 10 and 11 – applicable to all entities (whether listed or unlisted, for-profit or not-for-profit, in the private sector or public sector, consistent with the AASB’s transaction-neutral approach) that prepare GPFS or financial statements that are held out to be GPFS (but, until reporting periods beginning before 1 July 2021, excluding entities preparing GPFS under GPFS-RDR) or entities that are required to apply AASB 1054 (including those required by the legislation to do so); and
- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*,¹⁸ paragraphs 98 and 99 – applicable to for-profit and not-for-profit Tier 2 entities (whether in the private or public sectors) that prepare GPFS under Australian Accounting Standards – Simplified Disclosure Standard (GPFS-SDS). AASB 1060 is a new stand-alone disclosure standard to replace the current GPFS-RDR framework and applies to annual periods beginning on or after 1 July 2021, with earlier application permitted.

The Corporations Act also includes additional requirements applicable to listed companies in relation to the disclosure of remuneration for non-audit services in the annual directors’ report.

Table 1 immediately below provides an extract of the relevant requirements from AAS and the Corporations Act.

Table 1 Key Auditor Remuneration Disclosure Requirements:	
Authority	Requirements
AASB 1054 (paragraphs 10 and 11) Applicable to all entities that prepare GPFS, except entities preparing GPFS under AAS-RDR (which are not required to disclose information about auditor remuneration)	<p>“Audit Fees</p> <p>10 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <p style="padding-left: 40px;">(a) the audit or review of the financial statements; and</p> <p style="padding-left: 40px;">(b) all other services performed during the reporting period.</p> <p>11 An entity shall describe the nature of other services.”</p>
AASB 1060 (paragraphs 98 and 99) Applicable to for-profit and not-for-profit Tier 2 entities that	<p>“Audit Fees</p> <p>98 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <p style="padding-left: 40px;">(a) the audit or review of the financial statements; and</p> <p style="padding-left: 40px;">(b) all other services performed during the reporting period.</p> <p>99 An entity shall describe the nature of other services.”</p>

18 As per paragraph 13 of AASB 1053 *Application of Tiers of Australian Accounting Standards*, Tier 2 reporting requirements apply, as a minimum, to GPFS of the following types of entities: (a) for-profit private sector entities that do not have public accountability; (b) not-for-profit private sector entities; and (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

Table 1 Key Auditor Remuneration Disclosure Requirements:	
Authority	Requirements
prepare GPFS under GPFS-SDS	
Corporations Act 2001 - Section 300(11B)(a) and (11C) Applicable to listed companies	<p>"Listed companies--non-audit and auditor independence</p> <p>...</p> <p>(11B) The [annual directors'] report for a listed company must also include the following in relation to each auditor:</p> <p>(a) details of the amounts paid or payable to the auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf);</p> <p>...</p> <p>(11C) For the purposes of paragraph (11B)(a), the details of amounts paid or payable to an auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf) are:</p> <p>(a) the name of the auditor; and</p> <p>(b) the dollar amount that:</p> <p>(i) the listed company; or</p> <p>(ii) if consolidated financial statements are required – any entity that is part of the consolidated entity;</p> <p>paid, or is liable to pay, for each of those non-audit services."¹⁹</p>

The first component of PJC's Recommendation 3 implicitly anticipates consideration of these requirements in relation to:

- AAS: whether the distinction they make between 'audit' and 'other' services accompanied by only a description of the nature of those 'other' services is sufficient without further specified disaggregation; and
- the Corporations Act: whether its requirement to disclose amounts paid or payable to an auditor for each non-audit service is sufficient without the Act or regulations identifying explicitly what at least some categories of non-audit services are required to be separately disclosed.²⁰

¹⁹ As per section 300(2) and (2A) of the Corporation Act, entities do not need to include the 'details' specified in section 300(11B)(a) in the annual directors' report if they are included in the company's financial report for the financial year. However, in that case the directors' report must specify, in the section headed 'non-audit services', where those details can be found in the company's financial report for that financial year.

²⁰ AAS used to align with the Corporations Act to require disclosure of auditor remuneration for each unspecified non-audit service but were subsequently simplified to merely require disclosure of auditor remuneration for all non-audit services. This was done during the process of harmonising with New Zealand requirements (see the discussion immediately below Consideration 1, and Appendix 1 of this Report).

Consideration 1:²¹ 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?

This consideration is a threshold issue within the context of this Report. As noted in Appendix 1 of this Report, in 2010 the AASB considered requiring disclosure of remuneration of certain specified 'other' services. That approach was rejected at the time due to the then emphasis being on simplification, and on harmonisation with New Zealand rather than other overseas jurisdictions. The outcome was consistent with a view that users only need aggregate information about auditor remuneration for non-audit services to make assessments about risks to auditor independence. Given almost a decade has passed since the AAS requirements were last substantially reviewed, a review now in response to the PJC's Recommendation 3 could be regarded as a timely post-implementation review of the current requirements.

In addition, although arguably not directly pertinent to the PJC's Recommendation 3, there are other aspects of the current requirements that could usefully be reconsidered. They include:

- in relation to AAS:
 - whether the terms used to express the requirements, for example 'fees', are interpreted consistently in practice and in a way that satisfies the needs of financial statement users;
- in relation to the Corporations Act:
 - whether the terms used to express the requirements, for example 'each auditor' in section 300(11B), are interpreted consistently in practice and in a way that satisfies the needs of financial statement users; and
- in relation to the interrelationship between AAS requirements and the Corporations Act requirements:
 - whether the terminology should be made more consistent between the two sets of requirements (e.g. 'fees' vs 'amounts paid or payable'; and 'including any network firm' vs 'or by another person or firm on the auditor's behalf'); and
 - indeed, whether section 300(11B)(a) should be removed from the Corporations Act and the requirements in AAS (as possibly amended in response to the PJC's Recommendation 3) relied on instead.

These other issues (included as Consideration A3.1 and Consideration A3.2) are addressed more fully, albeit briefly, in Appendix 3 of this Report.

21 This is numbered 'Consideration 1' because it relates to a threshold issue of whether the current requirements are inadequate. However, it cannot be resolved fully until the other considerations identified later in this Report are resolved. This is because it is those other considerations that would help inform the consideration of the threshold issue.

3. Comparison with Other Jurisdictions' Auditor Remuneration Disclosure Requirements

This section compares the Australian auditor remuneration disclosure requirements with the requirements of other national jurisdictions in relation to issues that are directly pertinent to the first component of PJC's Recommendation 3. Other issues, indirectly pertinent to that Recommendation, are identified in Appendix 3 (included as Consideration A3.3 to Consideration A3.6) of this Report.

3.1 Remuneration for audit services

Like Australia, all selected jurisdictions (except Singapore) effectively require disclosure of remuneration for audit services by at least some types of entities, whether in the financial statements or elsewhere.²²

Such disclosure is consistent with the view it provides useful information to users of financial statements to the extent it reflects information about the entity's future economic condition (e.g. business risk), an auditor's effort costs (e.g. audit competence) and auditor litigation risk.²³ Remuneration for an audit could be viewed as a proxy for auditor independence, both at an absolute level and relative to remuneration for non-audit services. At an absolute level, the loss of a client with significant remuneration might be a large enough loss to be at risk of influencing the auditor's independence.²⁴ Furthermore, page 6 of the AASB's submission to the PJC states:

"Some assessments of audit quality might take into account the fees paid to auditors for the financial statements or for other work. For example, members of the AASB's User Advisory Committee (UAC) regard comparisons of audit fees across entities as relevant to assessments of financial reporting quality and audit quality. Comparatively higher audit fees could indicate financial reporting problems or issues with the audit process. Comparatively lower audit fees may indicate that a lower quality audit has been performed."²⁵

In the current Australian environment with on-going debate on auditor independence and its perception, the audit remuneration disclosures continue to be an important part of the disclosure regime. Accordingly, this Report does not suggest any further consideration needs to be given to the current Australian disclosure requirements relating to audit services remuneration in response to the PJC's Recommendation 3, except possibly in relation to clarifying the scope of 'audit services'.

-
- 22 Although South Africa only requires it for municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities.
 - 23 Simunic, D. 1980. The pricing of audit services: Theory and evidence. *Journal of Accounting Research* 18(1): 161-190. (Despite the age of this paper, it is widely cited in more recent studies on or related to auditor remuneration.)
Stanley, J. D. (2011). Is the audit fee disclosure a leading indicator of clients' business risk? *Auditing: A Journal of Practice & Theory*, 30(3), 157-179.
 - 24 Dickins, D., & Higgs, J. (2005). Interpretation and use of auditor fee disclosures. *Financial Analysts Journal*, 61(3), 96-102.
 - 25 Some may have a counter view to the comment that "Comparatively higher audit fees could indicate financial reporting problems or issues with the audit process" being that high audit fees could also indicate the audit was thorough and high quality.

Consideration 2: should a definition (or a defined scope) be developed for ‘audit services’?

There is currently no formal definition of ‘audit services’ in Australia. The research undertaken for the purpose of this Report did not identify a formal definition in other jurisdictions either. Accordingly, the question arises as to whether clarity is needed of what ‘audit services’ are. Clarifying the scope of audit services would help clarify the scope of non-audit services, or vice versa. Therefore, a definition of ‘audit services’ might be warranted, unless it is regarded as being reasonably clear from the definition of ‘audit engagement’ provided by APESB, which is mandatory under legislation.

In that regard, the Independence Standards in APES 110 are separated into Part 4A *Independence for Audit and Review Engagements* and Part 4B *Independence for Assurance Engagements other than Audit and Review Engagements*. Part 4A includes requirements pertaining to non-assurance services provided to audit clients. Further, paragraph 900.13 notes that if other assurance services are provided to an audit client Part 4A still applies. The definitions of ‘audit engagement’ and ‘assurance engagement’ in APES 110²⁶ provide some insights into the nature and therefore scope of audit services and arguably provides a sound basis for determining what ‘audit services’ consist of.²⁷ ‘Audit engagement’ falls within the broader notion of ‘assurance engagement’:

Audit Engagement:

“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.”²⁸

Assurance Engagement:

“An engagement in which a Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the Responsible Party about the Subject Matter Information.

This includes an engagement in accordance with the *Framework for Assurance Engagements* issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

(For guidance on Assurance Engagements, see the *Framework for Assurance Engagements* issued by the AUASB. The *Framework for Assurance Engagements* describes the elements

26 [APES 110](#) Glossary. They are also international definitions, adopted by the IESBA and the International Auditing and Assurance Standards Board (IAASB).

27 [KPMG’s submission to PJC](#) notes there might be inconsistencies in practice in identifying which services are included in remuneration for audit services due to the lack of an industry wide definition of other assurance and audit-related services. This issue is discussed in section 4.2.1 below.

28 [APES 110](#) Glossary (page 22) also defines, in the context of financial statements, ‘review engagement’ as “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.”

and objectives of an Assurance Engagement and identifies engagements to which *Australian Auditing Standards (ASAs)*, *Standards on Review Engagements (ASREs)* and *Standards on Assurance Engagements (ASAEs)* apply.)”

3.2 Remuneration for non-audit services²⁹

All selected jurisdictions considered for the purposes of this Report, except Singapore, effectively require separate disclosure of remuneration for non-audit services (again, at least by some types of entities, whether in the financial statements or elsewhere). However, in relation to those requirements, the research undertaken for this Report found there are a number of key differences, including:

- the degree of disaggregation required to be disclosed;
- the types of entities subject to the requirements;
- terminology used for auditor remuneration;
- the way in which the requirements are expressed/drafted;
- the source of the disclosure requirements;
- the location of the disclosures; and
- whether the disclosures are subject to audit or assurance.

Only the first and aspects of the second of these issues are directly pertinent to the PJC’s Recommendation 3. Therefore, only those two issues are analysed more fully in turn immediately below. As stated earlier, comments on the other issues are provided in Appendix 3 of this Report.

3.2.1 Disaggregation of non-audit services

Where disclosures about remuneration for non-audit services are required, the amount of detail and level of categorisation varies across jurisdictions. The disclosure requirements have been grouped in Table 2 below based on the relative degree of disaggregation of auditor remuneration (including remuneration for both audit and non-audit services) required, with group A being no disaggregation through to group E being the highest level of disaggregation.

29 Given the number of issues that could be considered in relation to disclosures about remuneration for non-audit services, they are identified separately in section 4 below rather than in section 3.2, which is focused on the international comparison.

Table 2 Degree of Disaggregation of Auditor Remuneration Disclosure Required

Group	Information required and specified categories	Jurisdictions
A (None)	An entity's audit committee must report to the Board the committee's assessment of the independence and objectivity of the auditor, taking account of the aggregate and respective fees paid for audit and non-audit services	Singapore
B (Effectively none)	Total amounts paid in audit fees (and whether there are any amounts outstanding)	South Africa (but only by municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities)
C (Low)	<ol style="list-style-type: none"> 1. Fees incurred for the audit (review) of the financial statements 2. Fees for other services (and a description of the nature of those other services)* <p>* for listed entities in Australia, in accordance with the Corporations Act, details of amounts paid or payable to an auditor (or to another person or firm on the auditor's behalf) for each non-audit service also need to be disclosed, but the Act does not identify specific categories of non-audit services (see Appendix 2 of this Report for more detail).</p>	Australia, Hong Kong (but only refers to audit, not review, of the financial statements), and New Zealand
D (Medium)	<ol style="list-style-type: none"> 1. Audit fees 2. Audit-related fees 3. Taxation fees 4. Other fees (Canada and US also require a description of the nature of the services under 'other fees') 	Canada, Germany, and the US
E (High)	<p>Fees for</p> <ol style="list-style-type: none"> 1. The auditing of accounts of any associate of the company 2. Audit-related assurance services 3. Taxation compliance services 4. All taxation advisory services not falling within paragraph 3 5. Internal audit services 6. All assurance services not falling within paragraphs 1 to 5 7. All services relating to corporate finance transactions entered into, or proposed to be entered into, by or on behalf of the company or any of its associates not falling within paragraphs 1 to 6 8. All non-audit services not falling within paragraphs 2 to 7³⁰ 	UK

30 As per section 5(6) of [The Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) Regulations 2008](#): "Disclosure is not required of remuneration for services falling within category 8 supplied by a distant associate of the company's auditor where the total remuneration for all of those services supplied by that associate does not exceed either—(a) £10,000, or (b) 1% of the total audit remuneration received by the company's auditor in the most recent financial year of the auditor which ended no later than the end of the financial year of the company to which the accounts relate."

The reasons some of the jurisdictions adopted their level of required disclosure can provide useful insight in considering whether those reasons would be applicable in the current Australian context. The background to the US and UK requirements is readily accessible, and summarised as follows:

- US: the level of disaggregation required was arrived at in response to concerns about impairment of auditor independence resulting from large management advisory fees (non-audit fees).³¹ Those concerns gave rise to the US Securities and Exchange Commission (SEC) *Final Rule: Revision of the Commissioner's Auditor Independence Requirements (the Rule)* in 2000, which was later modified in 2002 in response to the *Sarbanes–Oxley Act of 2002* in reaction to a number of corporate accounting frauds, including Enron. To allow investors better evaluate the independence of the auditor of a company's financial statements, the number of disclosed categories of professional fees paid for audit and non-audit services was increased from three (namely audit fees, financial systems design and implementation fees, and all other fees) to four (namely audit fees, audit-related fees, tax fees, and all other fees).³²
- UK: following corporate scandals earlier in the 2000s, including Enron and WorldCom, the regulation of auditors in the UK was reviewed. One focus of that review was on the provision by a company auditor of non-audit services. The review concluded there should be greater disclosure of the provision of non-audit services. The *Companies (Disclosure of Auditor Remuneration) Regulations 2005* were made and required disclosure of non-audit services provided by the company's auditor or its associates and the remuneration in a number of specific categories.

Subsequently, in 2011, responding to the concerns about fees paid to auditors and associates by companies they audited for non-audit services in the run-up to the global financial crisis, UK audit remuneration disclosure requirements were amended to further align the list of categories within non-audit services that were required to be disclosed with the UK Auditing Practices Board's Ethical Standards at the time.³³ The detailed rationale for the UK approach is provided in the Explanatory Memoranda to the respective regulations.³⁴

Within that context, it is also relevant to note audit reforms have relatively recently taken place in the European Union (EU). The EU issued an *Audit Directive* in 2014³⁵ that, more pertinent to the second component of the PJC's Recommendation 3 than the first,

-
- 31 Dickins, D., & Higgs, J. (2005). Interpretation and use of auditor fee disclosures. *Financial Analysts Journal*, 61(3), 96-102.
- 32 U.S. Securities and Exchange Commission (SEC) 2002. Proposed Rule: Strengthening the Commission's Requirements Regarding Auditor Independence. Release Nos. 33-8154; 34-46934. Washington, DC: SEC, <https://www.sec.gov/rules/proposed/33-8154.htm>.
- 33 Since then, the UK Auditing Practices Board's Ethical Standards have been replaced by the UK Financial Reporting Council's (FRC) Revised Ethical Standard 2019 (December 2019), which is available at: <https://www.frc.org.uk/getattachment/601c8b09-2c0a-4a6c-8080-30f63e50b4a2/Revised-Ethical-Standard-2019-With-Covers.pdf>. Audits in accordance with International Standards on Auditing UK (ISAs UK) require application of the FRC Ethical Standard for Auditors – see, for example, <https://www.icaew.com/technical/ethics/auditor-independence/independence-guidance>.
- 34 [Explanatory Memorandum to Companies \(Disclosure of Auditor Remuneration\) Regulations 2005, 2005 No.2417.](#)
[Explanatory Memorandum to Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) Regulations 2008, 2008 No.489.](#)
[Explanatory Memorandum to Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) Regulations 2011, 2011 No.2198.](#)
- 35 Article 5 - Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0537>.

introduced restrictions on the range of non-audit services public interest entities (PIEs) in the EU can obtain from the statutory audit firm and its network.³⁶

Section 4 below considers issues pertinent to deciding the extent to which the level of disaggregation in Australia should be amended to align with the higher level of disaggregation in other jurisdictions.

3.2.2 Types of entities subject to the requirements

As in Australia, all jurisdictions considered for the purposes of this Report, except South Africa and Singapore, require listed entities to disclose auditor remuneration related information. The related disclosure guidance in Singapore (imposed on the audit committee), noted in Table 2 above, is contained in the Practice Guidance to Corporate Governance Code,³⁷ which explains the Singapore Exchange (SGX) Listing Rules.

Also like in Australia, large private companies in New Zealand, the UK and Germany are subject to the same mandatory auditor remuneration disclosure requirements applicable to listed companies in their respective jurisdictions. The UK has legislated the disclosure of auditor remuneration through company law and those requirements depend on the size of the company, rather than the type of company. Accordingly, in the UK, all large companies³⁸ whether listed or not, are subject to the same disclosure requirements. However, small and medium sized companies only need to show the total amount of remuneration receivable by the company's auditor for the auditing of the accounts. In Germany, both medium and large companies need to make the disclosure for total auditor remuneration and remuneration for each category (i.e. audit services, other assurance services, tax services and other services). Private companies in other jurisdictions are not required to disclose auditor remuneration, except for companies carrying on banking or insurance business in Hong Kong.³⁹ The research undertaken for the purposes of this Report did not identify disclosure requirements for non-listed entities in Canada, Singapore and the US.

Furthermore, the research undertaken for the purposes of this Report did not identify disclosure requirements for not-for-profit or public sector entities in Canada, Hong Kong, Singapore and the US. In relation to the other jurisdictions:

- New Zealand: both not-for-profit and public sector entities (known as public benefit entities (PBE)) are subject to a separate set of accounting standards from the for-profit sector

36 The prohibited services include: tax and tax compliance services; services that involve playing any part in the management or decision-making of the audited entity; services linked to the financing, capital structure and allocation, and investment strategy of the audit client; and promoting, dealing in, or under-writing shares in the audited entity. Of note is that the EU regulations (paragraph 2 of Article 4) impose a cap on fees for non-audit services to audit services of 70% averaged over 3 years.

37 [Practice Guidance – Corporate Governance: Guidance on the Code of Corporate Governance for listed companies](#)

38 A company qualifies as a small company in a year in which it satisfies two or more of the following criteria: 1) turnover not more than £10.2 million; 2) balance sheet total not more than £5.1 million; and 3) number of employees not more than 50 (Section 382 of *Companies Act 2006*). A company qualifies as a medium-sized company in a year in which it satisfies two or more of the following criteria: 1) turnover not more than £36 million; 2) balance sheet total not more than £18 million; and 3) number of employees not more than 250 (Section 465 of *Companies Act 2006*).

39 [Hong Kong Companies Ordinance \(Cap. 622\)](#) – Division 2 Reporting Exemption, section 359.

entities. Tier 1 PBE entities are required to make the same auditor remuneration disclosures as Tier 1 GPFS;⁴⁰

- UK: all companies incorporated under the *Companies Act 2006* that meet the size criteria are required to include the disclosures, including charities if they are registered companies and government companies, unless there is a specific exemption; and
- South Africa: municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities are required to disclose the total amounts paid in audit fees in the notes to the financial statements.⁴¹ There is no requirement for disclosure of non-audit services provided by the auditor.

The above shows there is a significant difference between the types of entities that are subject to auditor remuneration disclosure requirements in different jurisdictions, varying between legal structure, size and sector (i.e. for-profit or not-for-profit, in the private or public sectors). Some vary as a result of the different historical approaches to regulation, although it is evident more recently some arise from the same underlying philosophy that underpinned the rationale for Australia providing RDR relief for non-publicly accountable entities.⁴² Accordingly, consideration could be given to which entities in Australia should be subject to any additional disclosures that might arise from the implementation of the PJC's Recommendation 3, having regard to cost/benefit considerations. For example, in relation to non-listed entities, based on precedent in overseas jurisdictions, consideration could be given to whether relief should be provided to entities preparing GPFS-SDS (as shown in the box below).

Furthermore, it is notable in Australia (and other jurisdictions) the non-audit services that can be provided to audit clients depends on whether the audit client is a PIE or a non-PIE. PIE is a defined term in the glossary of APES 110.⁴³ The differences in the types of services prohibited for PIEs

40 PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 116.1 and 116.2. Tier 2 PBE entities may elect not to apply the disclosure requirements in paragraphs 116.1 and 116.2 of PBE IPSAS 1. The (New Zealand) [Accounting Standards Framework](#) has two underlying objectives, which were used in determining the reporting obligations of each type of entity, namely: "1. To meet user needs — by developing accounting standards that lead to high quality financial reporting that meets the different user needs in the for-profit and public benefit entity (PBE) sectors; and 2. To balance the costs and benefits of reporting — by establishing appropriate accounting requirements based on the nature and size of the entity." Tier 3 and Tier 4 PBE entities are not required to disclose auditor remuneration.

41 *Local Government: Municipal Finance Management Act* - Section 125.

42 As per paragraph 6 of AASB's [Tier 2 Disclosure Principles](#), "the principles applied by the IASB in developing its IFRS for SMEs are grounded in the view that users of financial information of non-publicly accountable for-profit private sector entities are particularly interested in information about: (a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities; (b) liquidity and solvency; (c) measurement uncertainties; (d) the entity's accounting policy choices; (e) disaggregations of amounts presented in the financial statements; and (f) transactions and other events and conditions encountered by such entities."

43 'Public Interest Entity' is defined in APES 110 as:

"(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.

* Includes a listed entity as defined in Section 9 of the *Corporations Act 2001*.

Other entities might also be considered to be Public Interest Entities, as set out in paragraphs 400.8 to AUST 400.8.1 A1."

compared with non-PIEs are summarised at a high level in the APESB publication *APES 110 Code Prohibitions applicable to Auditors for all Audit and Review Engagements*. Whether this would be a preferable basis for differential auditor remuneration disclosure reporting requirements rather than the distinction between listed and non-listed companies could also be considered.

Consideration 3:⁴⁴ 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?

The most fundamental difference between Australia and other jurisdictions in relation to which entities are affected by the requirements is the transaction-neutral approach adopted in Australia whereby like transactions and events are accounted for in a like manner by all types of entities to the extent appropriate. Nothing in the PJC's Recommendation 3 brings that approach into question and therefore this Report does not explore the matter further.

As noted above, although the foregoing discussion has only focused on the level of disaggregation of auditor remuneration and the types of entities subject to the requirements, the requirements in the various jurisdictions address a wider range of issues. Full extracts of the auditor remuneration disclosure requirements for entities by jurisdiction are contained in Appendix 2 of this Report. For convenience, a high-level summary is provided in the following Table 3, identifying the full range of issues, followed by Table 4, summarising the types of entities that are subject to the requirements in each jurisdiction.

44 This is numbered 'Consideration 3' because it arises early, given the way this Report is structured. However, it cannot be resolved fully until the other considerations identified later in this Report are resolved. This is because it is through those other considerations that the requirements could ultimately be determined, at which time consideration would need to be given to the types of entities that should be subject to them.

Table 3 Summary of the Auditor Remuneration Disclosure Requirements						
Jurisdiction	Terminology Used for Auditor Remuneration ⁴⁵	Mandatory disclosure of auditor remuneration	Key requirement included in	Is the disclosure required in the financial statements?	Is the disclosure subject to audit?	Relative degree of Disaggregation provided (see Table 2 above)
Australia	AASB 1054 - “fees to auditor or reviewer, including any network firm” Corporations Act - “amount paid or payable to the auditor”	Yes	Accounting Standards and Corporations Act	Yes (listed entities also need to disclose in Annual Directors’ Report, or at least cross reference from Directors’ Report to financial statements)	Yes	C (Low)
Canada	“fees billed by the issuer’s external auditor”	Yes	Listing rules/ Securities law	No ⁴⁶	No (unless disclosure is voluntarily made in the financial statements)	D (Medium)
Germany	fee charged by the auditor	Yes	Company/ Corporation law	Yes	Yes	D (Medium)
Hong Kong	“remuneration of the auditor ... includes any sum paid by the company in respect of the auditor expenses”	Yes	Company/ Corporation law and Listing rules/ Securities law	Yes	Yes (although audit remuneration disclosure in the Corporate Governance Report would not be subject to audit)	C (Low)
New Zealand	“fees to each auditor or reviewer, including any network firm”	Yes	Accounting Standards	Yes	Yes	C (Low)
Singapore	“aggregate and respective fees paid for audit and non-audit services”	No	Practice Notes to Listing rules	No	No (unless disclosure is voluntarily made in the financial statements)	A (None)

45 The requirements are quoted verbatim from the standards/legislation in each jurisdiction, except for Germany whose original document is in German and was translated into English by AASB staff.

46 The disclosure is located in the Annual Information Form, which is required to be filed with the Securities Commission or equivalent authority for each province and territory.

Table 3 Summary of the Auditor Remuneration Disclosure Requirements						
Jurisdiction	Terminology Used for Auditor Remuneration ⁴⁵	Mandatory disclosure of auditor remuneration	Key requirement included in	Is the disclosure required in the financial statements?	Is the disclosure subject to audit?	Relative degree of Disaggregation provided (see Table 2 above)
South Africa	“total amounts paid in audit fees”	No requirements identified for entities other than municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities. Only fees for audit services are required to be disclosed. Fees for non-audit services are not required to be disclosed.	Local Government: Municipal Finance Management Act	Yes	Yes	B (Effectively none)
UK	“remuneration receivable by the company’s auditor, or an associate of the company’s auditor”	Yes	Company/ Corporation law	Yes	Yes	E (High)
US	“aggregate fees billed ... for professional services rendered by the principal accountant for the audit”	Yes	Listing rules/ Securities law	No ⁴⁷	No (unless disclosure is voluntarily made in the financial statement)	D (Medium)

⁴⁷ The disclosure is included in the Annual Report on Form 10-K, which is filed with the U.S Securities and Exchange Commission (SEC). The Annual Report on Form 10-K provides a comprehensive overview of the company’s business and financial condition and includes audited financial statements. Although similarly named, the annual report on Form 10-K is distinct from the ‘annual report to shareholders’, which a company must send to its shareholders when it holds an annual meeting to elect directors.

Table 4 Entities subject to Auditor Remuneration Disclosure Requirements				
Jurisdiction	Listed entities	For-profit non-listed entities in the private sector	Not-for-profit entities in the private sector	Public Sector entities
Australia	Yes	Yes – entities preparing GPFS (Tier 1 GPFS and GPFS-SDS) and/or required to comply with AASB 1054/AASB 1060	Yes – entities preparing GPFS (Tier 1 GPFS and GPFS-SDS) and/or required to comply with AASB 1054/AASB 1060	Yes – entities preparing GPFS (Tier 1 GPFS and GPFS-SDS) and/or required to comply with AASB 1054/AASB 1060
Canada	Yes	No specific requirements identified	No specific requirements identified	No specific requirements identified
Germany	Yes	Yes – large and medium companies need to disclose total auditor remuneration and also remuneration for each category	No specific requirements identified	No specific requirements identified
Hong Kong	Yes	No specific requirements identified	No specific requirements identified	No specific requirements identified
New Zealand	Yes	Yes – entities preparing Tier 1 GPFS	Yes – Tier 1 PBE entities	Yes – Tier 1 PBE entities
Singapore	No (see Appendix 2 for details)	No specific requirements identified	No specific requirements identified	No specific requirements identified
South Africa	No	No specific requirements identified	No specific requirements identified	Yes, but only in respect of municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities and only in respect of total amounts paid in audit fees in the notes to the financial statements. No further break down required, and disclosure of other auditor remuneration is not required.
UK	Yes	Yes – large companies	Yes – if incorporated under the <i>Companies Act 2006</i> that meet the size criteria for large companies	Yes – if incorporated under the <i>Companies Act 2006</i> that meet the size criteria for large companies
USA	Yes	No specific requirements identified	No specific requirements identified	No specific requirements identified

4. Possible Improvements to Australian Disclosure Requirements for Non-Audit Services

The ratio of remuneration for non-audit services to remuneration for audit services could be seen by some (e.g. regulators and users of the financial statements) as a key metric for assessments of auditor independence. For example, it could provide an indication that an auditor has used the audit to ‘get in the door’ to sell additional services and is dependent on the remuneration for non-audit services generated.⁴⁸ Some are concerned that, as the ratio of non-audit to total auditor services remuneration increases, there is an increased risk auditors have an incentive to compromise on audit reporting issues.⁴⁹

This section considers whether Australian auditor remuneration disclosure requirements could be improved based on overseas precedent and other factors. The focus is on improving disclosures about non-audit services because they gave rise to the primary concerns identified as part of the PJC review that resulted in Recommendation 3. Furthermore, as noted in section 3.1 above, the current disclosure requirements relating to remuneration in respect of audit services are relatively uncontroversial.

Before considering potential ways in which the selected jurisdictions’ requirements in relation to disclosures about non-audit services could provide a basis for improving Australian disclosure requirements in section 4.2 below, section 4.1 provides some additional Australian context.

4.1 Overview of non-audit services in Australia

Of particular relevance to the types of non-audit services provided in Australia and the related disclosure issues that arise is that:

- APES 110 specifies the circumstances under which certain non-audit services are prohibited.⁵⁰ APES 110 thereby effectively delineates the scope of the discussion in section 4.2, which focuses on disclosures about the allowed non-audit services. (As noted earlier in this Report, in due course, consideration would also need to be given to any updates to the list of prohibited services that might arise in response to the second component of the PJC’s Recommendation 3 and any subsequent amendments to APES 110);
- empirical research undertaken by Professor Elizabeth Carson of the University of New South Wales (UNSW) Sydney and published as [AUASB Research Report 4 The provision of non-audit services by audit firms in Australia 2012- 2018](#) (AUASB RR4) identifies the most common types of non-audit services purchased by clients from their auditor over a seven year period

48 AUASB Research Report 4: The provision of non-audit services by audit firms in Australia: 2012-2018, Professor Elizabeth Carson, UNSW Sydney, page 8, https://www.auasb.gov.au/admin/file/content102/c3/AUASB_ResearchReport4_Dec19.pdf.

49 Dickins and Higgs (2005), page 97.

50 Section 600 *Provision of Non-Assurance Services to an Audit Client* in [APES 110](#) sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. A description of each of these services is also provided. Some services are strictly prohibited whilst others are only prohibited if specific factors such as materiality of the relevant matter to the audit client’s financial statements are present. Furthermore, APES 110 imposes more extensive prohibitions in relation to PIE audit clients compared with non-PIE audit clients.

from 2012-2018 (shown in Table 5⁵¹ below). The list of non-audit services in the first column of Table 5 thereby provides a basis for the structure of the discussion in section 4.2 below; and

- the AUASB's submission to the PJC included descriptions of the nature of different categories of non-audit services and the degrees to which they could pose a risk to auditor independence.⁵² The discussion in section 4.2 below draws heavily from the information contained in the AUASB Submission.

Table 5 Types of Non-Audit Services Purchased by Clients from their Auditor

Type of Non-Audit Service	2012 (\$ mill.)	2013 (\$ mill.)	2014 (\$ mill.)	2015 (\$ mill.)	2016 (\$ mill.)	2017 (\$ mill.)	2018 (\$ mill.)
Taxation Services	78.000	68.946	69.581	68.304	74.416	70.950	62.290
Audit Related Services	29.080	29.865	1.961	2.499	9.258	0.679	8.909
Accounting Services	2.040	0.967	2.158	1.343	2.328	0.869	4.942
Consulting and Advisory Services	12.218	10.145	11.526	17.110	15.710	23.786	17.637
IT Services	0.220	0.116	0.021	0.564	0.494	0.067	0.945
Due Diligence Services	8.511	9.371	13.711	12.008	14.299	14.266	7.976
Other Assurance Services	18.853	21.526	10.473	20.466	12.244	13.444	14.538
Internal Audit Services	0.108	0.065	0.177	0.098	0	0.071	0.199
Legal, Compliance and Litigation Services	0.708	0.624	0.005	0.205	0	0.232	0.857
Non-Audit Services (not separately disclosed)	33.619	44.732	53.008	49.731	46.960	47.078	54.003
Total Non-Audit Services	183.360	186.360	162.624	172.331	175.712	171.448	172.300

4.2 Possible options to expand the categories of 'non-audit services' required to be disclosed in Australia

A possible outcome of the first component of the PJC's Recommendation 3 is, subject to Consideration 1 in section 2 above, a requirement for a more detailed disaggregation of the current Australian disclosure requirements relating to non-audit services. Despite the number of possible levels to which disaggregation could be mandated, the following four approaches provide a reasonable representation of the broad range of possibilities, presented in ascending degrees of disaggregation:

- separate disclosure of two categories of non-audit services and remuneration: audit-related services (row 2 of Table 5 above) and other non-audit services (rows 1 and 3-10 of Table 5). This level of disaggregation would lead to a higher level of disaggregation than currently required by AAS, but significantly lower than some overseas jurisdictions including Canada, Germany, the US and the UK. These two broad types of non-audit services were identified and explained in the [AUASB's submission to the PJC](#);
- separate disclosure of three categories of non-audit services and remuneration: audit-related services (row 2 of Table 5), taxation (row 1 of Table 5) and other non-audit services

51 Being a copy of Table 7 *Type of Non-Audit Services Purchased by Clients from their Auditor* from page 8 of AUASB RR 4.

52 AUASB, Regulation of auditing in Australia, Submission 22, October 2019 (AUASB Submission to PJC), https://www.auasb.gov.au/admin/file/content102/c3/PJC_Inquiry_AUASB_Submission.pdf.

(rows 3-10 of Table 5). This approach represents a level of disaggregation consistent with Canada, Germany and the US;

- separate disclosure of up to eight specified categories of non-audit services and remuneration, as required in the UK. This approach would represent a high level of specified disaggregation, that could be modified from the UK approach for the Australian specific context; and
- separate disclosure of more than eight specified categories of non-audit services and remuneration, using the UK approach as the basis and including additional categories, for example distinguishing between ‘other assurance services performed due to a regulatory or contractual obligation’ and ‘other assurance services performed at the discretion of the entity’. This approach would represent a very high level of disaggregation.

In addition to overseas precedent, factors that could be considered in determining the level of disaggregation that would be suitable in the Australian context might include:

- the extent to which reliance can be placed on an audit client’s processes (including through those charged with governance such as the board of directors and audit committee) having regard to its governance obligations before requesting (and during receiving) an auditor’s service and the auditor having undertaken its independence evaluation process as to whether it can provide, and continue to provide, the service. The extent to which those processes can be relied on⁵³ could affect the level of detailed disclosures needed to facilitate a financial statement’s user’s independence risk assessment;
- related to that, for any category of non-audit services, the level of risk an auditor providing such a service would impair or threaten audit independence, and therefore transparency and the quality of financial statements. Disaggregation of non-audit services could be helpful to users seeking to understand the nature and quantum of services provided by the auditor and thereby assist their decision-making;⁵⁴
- the size of a category relative to total auditor remuneration for non-audit services;
- the ability to clearly define, or at least describe, different categories of non-audit services (perhaps based on APES 110 material on prohibited services or the definitions adopted in the UK FRC Ethical Standard) and have them applied consistently; and
- cost/benefit considerations and the risk of information overload for users of financial statements.

The following identifies a consideration that is pertinent to each of a number of possible categories of non-audit services and provides an analysis of relevant issues, having regard to the above factors. No firm conclusions are drawn – the aim is to provide a framework and inform discussion in respect of the first component of the PJC’s Recommendation 3.

53 Although the implications of non-compliance with any requirements are beyond the scope of this Report, its possibility is mentioned here for the sake of completeness and to acknowledge that, from a practical perspective, it could have implications for the level of disclosures that might be warranted.

54 This factor could be dealt with by aligning the disaggregation disclosure categories with APES 110 non-audit services prohibitions (see also the second paragraph in the Scope section above) to help ensure the level of risk to independence is addressed in a consistent manner. If that approach were adopted, the disclosures could also be required to cross reference to the assessments made under the non-audit services provisions and the conceptual framework of APES 110.

The discussion does not follow the order in which the different categories are listed in Table 5. Instead, they are discussed in an order more consistent with the grouping of non-audit services described as ‘medium’ in the comparison of overseas jurisdictions in Table 2 above, although a cross-reference to the relevant row in Table 5 is also provided.

4.2.1 Audit-related services (row 2 of Table 5)

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?

In its submission to the PJC, AUASB states ‘audit-related services’ are those “that are related to and complementary to the audit [of financial statements]”.⁵⁵

There is no single source or listing of what constitutes ‘audit-related services’ in Australia and therefore judgement is required when determining what services fall within this category.⁵⁶ Examples of ‘audit-related services’ in Australia might include assurance over a range of areas including merger and acquisition activities, effectiveness of internal control and regulatory reporting and compliance issues.⁵⁷ In that regard, KPMG states in its [submission to the PJC](#) (page 4) “there are no industry-wide definitions of other assurance and audit-related services and non-audit services. This can result in public confusion, as well as inconsistencies when companies are considering the nature of permitted services performed and related fees paid to their auditor”. The nomenclature ‘audit-related services’ might be regarded by some as important as it can convey the acceptability of such services being provided by the auditor.

The US SEC implies remuneration for audit-related services might not be viewed negatively as threats to auditor independence, since “In general, “Audit-Related Fees” are assurance and related services (e.g. due diligence services) that traditionally are performed by the independent accountant [auditor].”⁵⁸ Research also provides evidence supporting this view that, unlike an auditor’s remuneration for taxation (discussed in section 4.2.2(a) below) and other non-audit services,

55 [AUASB submission to the PJC](#), page 5.

56 In that regard it is informative to note the Institute of Chartered Accountants in England and Wales (ICAEW), in its *Technical Release* (TECH 14/13FRF), provides guidance on the disclosure of auditor remuneration for UK companies. The examples it provides of ‘audit-related services’ that are not ‘audit services’ include:

- reporting required by law or regulation to be provided by the auditor;
- reviews of interim financial information;
- reporting on regulatory returns;
- reporting to a regulator on client assets;
- reporting on government grants;
- reporting on internal financial controls when required by law or regulation; and
- extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where the work is integrated with the audit work.

57 KPMG, Australia <https://home.kpmg/au/en/home/services/audit/assurance.html>.

58 U.S. Securities and Exchange Commission (SEC) 2003. Final Rule: Strengthening the Commission’s Requirements Regarding Auditor Independence. Release Nos. 33-8183; 34-47265. Washington, DC: SEC, <https://www.sec.gov/rules/final/33-8183.htm>.

investors in the US appear not to view remuneration for audit-related services as a potential threat to auditor independence.⁵⁹

In Australia, 'audit-related services' are not necessarily required to be provided by an entity's auditor. [EY states in its submission to the PJC](#) (page 5) that 'audit-related services' include "other audits or reporting that auditors are either required to undertake or are best placed to undertake under legislation, regulation or contract. These services are typically provided by the same audit partner and staff, and include regulatory audits, compliance plan audits, grant audits, covenant reporting to banks and associated entity audits." Page 5 of the AUASB submission to PJC notes that overall audit quality can be improved if audit-related services are provided by the entity's auditor:

"The performance of the services complementary to the audit requires a deep understanding of the business and its systems of internal control, to enable appropriate risk assessment and design of appropriate procedures... Having the auditor providing these complementary services can improve audit quality as knowledge gained from undertaking these services contributes to the auditor's understanding of the entity. Engaging another service provider to perform these complementary services would likely result in increased costs to the audited entity as the other provider would need to build the necessary knowledge and experience, which potentially could result in lower quality for these engagements."

However, as noted above, it is not necessary that they be provided by the statutory auditor. For example the Prudential Standard APS 310 *Audit and Related Matters* issued by the Australian Prudential Regulation Authority anticipates the possibility of the appointment of a different auditor for audit-related services.⁶⁰

Based on the above discussion, consideration could be given to requiring separate disclosure of auditor remuneration for audit-related services with a description of the nature of the services provided. This is on the basis it could improve the information about the nature of non-audit services and remuneration and allow users to make informed judgements in this area (for example, as input to assessments about risks to audit independence). Such separate disclosure would also be consistent with requirements in other overseas jurisdictions including Canada, Germany, the US and the UK.

59 Mishra, S., K. Raghunandan, and D. Rama. 2005. Do investors' perceptions vary with types of nonaudit fees? Evidence from auditor ratification voting. *Auditing: A Journal of Practice & Theory* (November): 9–25.

60 APS 310 paragraph 15 says that "The appointed auditor may be the same auditor who audits an ADI [authorised deposit-taking institution] for the purposes of the Corporations Act 2001. Separate auditors may be appointed to meet the requirements in this Prudential Standard on a Level 1 and Level 2 basis, and to undertake the different engagements required by this Prudential Standard."

(a) Further Disaggregation of Audit-related services

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?

Consistent with the more general discussion about audit-related services immediately above, within the broader category of audit-related services, some services (such as assurance procedures over regulatory returns that fall outside the scope of a financial report audit) are typically provided by the statutory auditor for practical reasons. An example of this is where it would be too cost prohibitive to engage a second external auditor and for them to gain the level of understanding of the business, financial reporting systems and internal controls sufficient to be able to provide reasonable assurance and issue the required audit report. Often these types of services use audited numbers from the financial statements, and therefore it is logical for the entity's external auditor to provide the services.

Despite this, to the extent these services involve, for example 'prudential assurance reporting' work, consideration could be given whether advocacy and familiarity threats to the auditor's independence could be created if the work is undertaken by the auditor. Therefore, if these types of audit services are not explicitly prohibited, there might be merit in the two sub-categories contemplated above being required to be disclosed where the distinction is considered important to meet users' needs and the benefits of such disclosure outweigh the cost..

This level of disaggregation is not identified in Table 5 above, and none of the other selected jurisdictions require separate disclosure of 'audit-related services that are impractical to be provided (or prohibited from being provided) by the auditor'. Such a disclosure requirement would lead to a higher level of disaggregation of information than the highest level identified in Table 2 above, being the UK. Although it would provide more transparency, it might also introduce significant judgement and impose an additional compliance burden on entities. Therefore, as part of any consideration of whether this level of disaggregation should be required, further cost-benefit analysis would be advisable.

4.2.2 Non-audit services other than audit-related services (rows 1 and 3-10 of Table 5)

If a decision were to be made that auditor remuneration for 'audit-related services' should be disclosed separately, this section identifies what other categories of non-audit services might also warrant separate disclosure.

These 'other non-audit services' comprise services that do not rely on any synergies in knowledge gained from undertaking audit services.⁶¹

61 Page 5 of the [AUASB submission to the PJC](#).

According to AUASB RR4, the top 3⁶² ‘other non-audit services’ purchased by clients from their auditor in 2018 comprised:

- taxation services (36% - see row 1 of Table 5 above, discussed in section 4.2.2(a) below);
- consulting and advisory services (10% - see row 4 of Table 5 above, discussed in section 4.2.2(d) below); and
- other assurance services (8.5% - see row 7 of Table 5 above, discussed in section 4.2.2(b) below).

The relative sizes of these spending patterns, combined with the categories focused on by overseas jurisdictions’ requirements, and observations made by the AUASB in its PJC submission provide a starting point in helping structure the following discussion and ultimately help identify additional disclosure items for consideration of improved auditor remuneration disclosures.

(a) Taxation services (row 1 of Table 5)

Consideration 6: should auditor remuneration for taxation services be required to be separately disclosed with a description of the nature of the services?

‘Taxation services’ might comprise a broad range of services, including tax return preparation, tax calculations for the purpose of preparing the accounting entries, tax planning and other tax advisory services, tax services involving valuations, and assistance in the resolution of tax disputes.⁶³

Performing certain tax services creates self-review and advocacy threats. These could arise if the auditor were to provide, for example:

- assurance for their own work in calculations of current and deferred tax liabilities or assets for a client for the purpose of preparing accounting entries;⁶⁴
- tax planning and other tax advisory services;⁶⁵ and
- tax services involving valuations.⁶⁶

APES 110 prohibits auditors from providing certain taxation services to their audit clients under certain circumstances.⁶⁷

62 With the exception of ‘non-audit services (not separately disclosed)’, which accounts for 31.34% of the total non-audit services purchased in 2018 – see Row 10 of Table 5 above. This category is excluded because, as noted in page 8 of AUASB RR4, the total spend on non-audit services is not broken down into specific types of non-audit services by many entities. For example, for some entities, ‘non-audit services (not separately disclosed)’ might include taxation services and/or audit-related services if those entities did not separately disclose those categories despite acquiring them from their auditors.

63 [APES 110, paragraph R604.3 A1](#).

64 Paragraphs 604.5 A1 to 604.6 A1 of APES 110 include specific requirements and application material in relation to this, including a prohibition for PIE audit clients based on materiality.

65 Paragraphs 604.7 A1 to R604.8 of APES 110 include specific requirements and application material on tax planning and advisory services.

66 Paragraphs 604.9 A1 to R604.9 A5 of APES 110 include specific material on tax services involving valuations.

67 For example, [APES 110, paragraph R604.8](#) prohibits tax planning and other tax advisory services for all audit clients based on materiality and where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubts as to its appropriateness.

Academic research (Mishra et al. 2005) provides some evidence users of financial statements in the US appear to view remuneration for tax services negatively as a risk to auditor independence.⁶⁸

Furthermore, it is arguably reasonable to expect that, to the extent taxation services are able to command high margin fees relative to audit fees, there is a risk auditor independence could be compromised. This could arise if, for example, a qualified audit report could be perceived by the auditor as risking the audit firm's future more lucrative tax consulting work.

Based on the above discussion, consistent with APES 110, consideration could be given to requiring separate disclosure of auditor remuneration for taxation services with a description of the nature of the services. Such disclosure could improve the information about the nature of remuneration for non-audit services and allow users to make informed judgements in this area (for example, as input to assessments about risks to audit independence). Such separate disclosure would also be consistent with requirements in other overseas jurisdictions including Canada, Germany, the US and the UK.

(i) Further Disaggregation of Taxation Services

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?

Despite the prohibition on the provision of certain taxation services, there is still a variety of allowed taxation services. For example, tax return services are not prohibited from being provided by the auditor as "providing tax return services does not usually create a threat" to auditor independence.⁶⁹

The types of allowed taxation services might be perceived as varying in their level of threat to auditor independence and the extent to which such threats can be adequately addressed by applying safeguards. Accordingly, further disaggregation of taxation services might provide useful information for users.

The UK requires a breakdown of 'taxation services' into 'taxation compliance services' and 'all taxation advisory services other than tax compliance services'. The perceived threats arising from the provision of tax compliance services would be expected to be lower than other taxation services where the tax compliance services are based on well-established tax practices and legal precedence using historical financial information prepared and approved by client management. Arguably it might also be perceived to be relatively lower to the extent taxation services other than compliance services are able to command higher margin fees.

Australia could consider adopting a similar approach to the UK for a breakdown based on the assessed level of perceived threats for permitted taxation services with consideration of the Australian context, together with requiring disclosure of a description of the nature of the services. This would be broadly consistent with APES 110. This approach would require judgement when determining what services fall into what category and also would increase complexity and additional compliance costs, which warrants further cost-benefit analysis before consideration is given to it being imposed in Australia. However, arguably, auditors and those charged with governance of the

68 Mishra, S., K. Raghunandan, and D. Rama. 2005. Do investors' perceptions vary with types of nonaudit fees? Evidence from auditor ratification voting. *Auditing: A Journal of Practice & Theory* (November): 9–25.

69 [APES 110, paragraph R604.4 A1.](#)

entity (i.e. boards of directors and audit committees) would already have applied judgement to determine if the service is not prohibited under APES 110 and therefore drawing the distinction might not increase complexity and compliance costs.

(b) Other assurance services (row 7 of Table 5)

Consideration 8: should auditor remuneration for other assurance services be required to be separately disclosed with a description of the nature of the services?

‘Other assurance services’ (which exclude ‘audit-related services’ and ‘audit services’), might include an assurance obtained to meet other legislative, regulatory or contractual arrangements, for example, assurance over controls at a service organisation. The key difference between ‘other assurance services’ and ‘audit-related services’ is that the former is not related to or complementary to an audit of financial statements, while the latter is so related.⁷⁰

The UK requires separate disclosure for all assurance services that are not audit of financial statements services or audit-related assurance services.

If it is decided a high level of disaggregation approach should be adopted in Australia, consideration could be given to requiring separate disclosure of ‘other assurance services’, together with a description of the nature of the services, given it is identified as the third most purchased non-audit service from auditors in 2018 according to Table 5 above.

(i) Further Disaggregation of Other Assurance Services

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?

A board of directors may use its discretion to engage the external auditor to perform ‘other assurance services’, such as providing limited assurance over non-financial metrics in the Sustainability Report, whilst being mindful of any ethical and independence requirements. Commercial efficiencies and benefits might be gained by using the same auditor even though an assurance provider other than the entity’s financial report auditor would not necessarily require the same level of understanding of the business and internal control systems as for ‘audit services’ or ‘audit-related services’. APES 110 requires auditors providing ‘other assurance services’ to follow the relevant requirements for independence.⁷¹

Arguably, although not separately identified in Table 5 above, the distinction between the two types of ‘other assurance services’ could be required to be disclosed because these two types could be perceived to have different implications for auditor independence.

This level of disaggregation is not identified in Table 5 above, and none of the other selected jurisdictions require separate disclosure of auditor remuneration for ‘other assurance services

⁷⁰ AUASB submission to the PJC, page 5. See also sections 3.1 and 4.2.1 above, where this Report suggests consideration is given to clarifying the scope of audit services and audit-related services respectively.

⁷¹ Under paragraph 900.13 of APES 110, if assurance services other than the audit or review are provided to an audit client, Part 4A of APES 110 applies in relation to all services, including other assurance services, provided to the client. Part 4A is generally more stringent than Part 4B.

performed due to a regulatory or contractual obligation’ and ‘other assurance services performed at the discretion of the entity’. Such a disclosure requirement would lead to a higher level of disaggregation of information than the highest level identified in Table 2 above, being the UK. Although it might provide more transparency, it would also impose an additional compliance burden on entities. Therefore, as part of any consideration of whether this level of disaggregation should be required, further cost-benefit analysis would be advisable.

(c) Internal audit services (row 8 of Table 5)

Consideration 10: should auditor remuneration for internal audit services be required to be separately disclosed with a description of the nature of the services?

Internal audit services involve assisting the audit client in the performance of its internal audit activities, which might include monitoring of internal control, examining financial and operating information, reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity, and reviewing compliance with law, regulations, external requirements and management policies, directives and other internal requirements.⁷²

Internal audit services are addressed in subsection 605 of APES 110. These services are prohibited based on materiality and if they relate to a significant part of internal controls over financial reporting, financial accounting systems, or amounts/disclosures in the financial statements for PIE audit clients and if certain factors (relating to management responsibility) are not satisfied for non-PIE audit clients. Additionally, audit engagement teams in Australia specifically exclude individuals within the client’s internal audit function. The Engagement Team definition in APES 110 works in conjunction with Auditing Standard ASA 610 *Using the Work of Internal Auditors* to prohibit direct assistance by internal auditors in the external audit process.

As a result, the level of internal audit services provided to clients by their auditor is relatively low in Australia. AUASB RR4 found in 2018 only about 0.1% of total ‘non-audit service’ purchased by clients from their auditor for the year was for internal audit services. It is discussed separately here because it is one of the categories identified for separate disclosure in the UK.

Despite internal audit fees being a separate disclosure item in the UK, it is unlikely this spend would contribute to a material amount and the benefit obtained from separately disclosing it in Australia would be minimal. Accordingly, in considering whether to impose this level of disaggregation in Australia, regard should be had to current and any future prohibitions on the provision of internal audit services and, in any case, whether such disclosure would be expected to be cost-effective.

(d) All other non-audit services (i.e. rows 3-6, 9 and 10 of Table 5)

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?

Some aspects of some of these other services are expressly prohibited by APES 110 and therefore the question of their disclosure does not arise (except in the context of auditor non-compliance with APESB pronouncements, which as noted above is beyond the scope of this Report).⁷³ They include:

⁷² Refer [APES 110, paragraph 605.3 A1](#) for a full description.

⁷³ However, as noted earlier in this Report, it might be appropriate that a disclosure refers to application of prohibited services requirements and the conceptual framework in APES 110.

- In relation to ‘accounting services’ (row 3 of Table 5): APES 110 prohibits an auditor from providing accounting and bookkeeping services, including preparing the financial statements of an audit client that is a PIE on which the audit firm will express an opinion or financial information that forms the basis of such financial statements.⁷⁴ APES 110 also prohibits this for non-PIE audit clients as long as the auditor does not assume a management responsibility, the service is ‘routine or mechanical’ and threats that are not at an acceptable level are addressed (paragraph R601.5).
- In relation to ‘legal, compliance and litigation services’ (row 9 of Table 5): an auditor is prohibited from acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the auditor will express an opinion.⁷⁵

In contrast, depending on specific circumstances, the following services might not be prohibited by APES 110:

- IT services (row 5 of Table 5);⁷⁶
- Legal services other than those prohibited by APES 110 (part of row 9 of Table 5); and
- Due diligence services (row 6 of Table 5).⁷⁷

Given the circumstances under which such services can be provided under APES 110, they would not be expected to, of themselves, pose an unacceptable risk to auditor independence. Accordingly, consideration could be given to not requiring their separate disclosure.

The nature of some of the auditor services listed in Table 5 are too broad to declare them clearly of perceived low risk or high risk to auditor independence. They include:

- Consulting and advisory services (row 4 of Table 5); and
- Non-audit services (not separately disclosed) (row 10 of Table 5).

Accordingly, even if it is decided they should not be required to be separately disclosed, consideration could be given to whether they should at least be disclosed in aggregate. Given a definition of ‘other non-audit services’ that can be consistently applied is likely to be elusive, consideration could be given to requiring an entity to separately disclose the auditor remuneration for those services in aggregate and provide an explanation of the nature of the significant services, based on the APES 110 framework. This approach, requiring description of nature, would align with the requirements in Canada and the US.

74 [APES 110, paragraph R606.6](#), and R601.7.

75 [APES 110, paragraph R608.6](#).

76 Under subsection 606 of APES 110 IT systems services are prohibited from being provided to PIE audit clients if the systems are a significant part of the internal control over financial reporting or they generate information significant to accounting records or financial statements (paragraph R606.5). If factors in paragraph R606.4 are not satisfied then IT services to non-PIEs are prohibited.

77 Some due diligence services will also come within APES 350 *Due Diligence Committees* and those services will need to comply with the requirements and prohibitions in that Standard.

5. Concluding Comments

This section summarises the outcome of the above analysis.

5.1 Disclosure of auditor remuneration for audit services

Based on the analysis in section 3.1 above, continuing to require the disclosure of remuneration for an audit is justifiable and would be consistent with the approach in selected overseas jurisdictions. The scope of audit services within the broader category of auditor services determines the scope of non-audit services, or vice versa. Therefore, a definition (or a defined scope) of ‘audit services’ might be warranted, at least as a basis for distinguishing it from ‘audit-related services’, unless it is regarded as being reasonably clear given the definition of ‘audit engagement’ provided by APESB (see Consideration 2 above). Where definitions are regarded as warranted, care should be taken to avoid creating different terminology if the same meaning is intended, especially when there are global definitions.

5.2 Disaggregation of auditor remuneration for non-audit services

From the analysis in section 2 above, subject to resolution of Consideration 1, one approach that could be considered for its potential to improve the quality of auditor remuneration disclosures in Australia when addressing the first component of PJC’s Recommendation 3 is to 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. This would be similar to the approach adopted in AAS prior to the substantive review of auditor remuneration undertaken by the AASB in 2010. It would also be similar to the current requirements in the Corporations Act for listed companies. Such an approach has the potential to improve transparency, however, it is not as detailed/prescriptive as some of the other jurisdictions, namely Canada, Germany, the US and the UK.

Another approach, as discussed in section 4 above, is to expand the specified categories of services that would need to be separately disclosed based on the requirements of selected overseas jurisdictions, having regard to the Australian context. In particular, consideration could be given to requiring disaggregation of auditor remuneration for non-audit services into the following specified categories, adopting the respective definitions and guidance provided by APES 110 (noting that implementation of the second component of Recommendation 3 might lead to an update of those definitions and guidance):

- audit-related services (without further breakdown required unless shown to be cost beneficial), with a description of the nature of the services (see Consideration 4 and Consideration 5 above);
- taxation services (see Consideration 6 above), broken down into:
 - tax compliance services; and
 - other tax services, with a description of the nature of the services (see Consideration 7 above);
- other assurance services (without further breakdown required unless shown to be cost beneficial), with a description of the nature of the services (see Consideration 8 and Consideration 9 above); and

- non-audit services not included in the above categories, with a description of the nature of the significant services (see Consideration 10 and Consideration 11 above).⁷⁸

This approach is not as detailed as some of the other jurisdictions, particularly the UK, but still has the potential to:

- improve the level of transparency and clarity of the types and nature of non-audit services provided by the auditor and the remuneration for each category of service and thereby provide useful information to users interested in assessing risks to auditor independence;
- align specified non-audit service categories (including other assurance engagements that are not statutory financial statement audits) with the APES 110 framework;⁷⁹
- reflect Australian-specific circumstances, particularly those identified in AUASB RR4;
- enhance comparability across Australian entities; and
- enhance international comparability.

This approach differs from the approach previously required by AAS that was changed as part of an effort to provide simplified GPFS. In particular, as noted above and in Appendix 1 of this Report, superseded AAS [AASB 101 (September 2007 – Principal)] used to require separate disclosure of the nature and amount of each category of non-audit services.⁸⁰ In the absence of specified categories of non-audit services, judgement was required when determining what services fell into what category under the superseded AASB 101. As a result, comparability between entities was limited.

The approach raised for consideration in section 4 of this Report is broadly consistent with the approach taken in the UK to addressing the relationship between ethical standards and financial reporting disclosure standards. In particular, as noted in section 3.2.1 above, the classification of non-audit services was amended in 2011 in the UK to align with the classification of non-audit services in ethical standards.⁸¹ This is on the basis classification of non-audit services in those ethical standards could be used to identify possible threats to the auditor's independence and possible safeguards that could be put in place to address them. The approach raised for consideration in section 4 of this Report takes a similar approach: using the classification of non-audit services identified in the Australian ethical standards, i.e. APES 110, and using them as the basis for specifying the classification of non-audit services for disclosure requirements in AAS.

This approach also differs from the analysis of auditor remuneration the largest six audit firms are encouraging the top 300 Australian entities listed on the Australian Securities Exchange (ASX) by market capitalisation to provide in future financial reports and that was used by ASIC for the

78 For the avoidance of doubt, as noted earlier in this Report, consideration could also be given to requiring disclosure that the requirements and conceptual framework in APES 110 has been applied.

79 [APES 110](#) refers to 'non-assurance services' rather than 'non-audit services'. In contrast, AASB 1054 and AASB 1060 refer to 'non-audit services' instead of 'non-assurance services', which is consistent with the current requirement to distinguish between 'audit services' and 'non-audit services' in AAS. The consequence of this is that non-audit services encompass, but are broader than non-assurance services.

80 Paragraph Aus138.1(c), AASB 101 *Presentation of Financial Statements* (September 2007 – Principal) – No longer in force. See Appendix 1 of this Report for more detail.

81 In the UK, the UK FRC sets the accounting, auditing and ethical standards for the Financial Times Stock Exchange (FTSE) entities whereas in Australia these different types of standards are being set by separate Boards. Irrespective of the institutional arrangements in place for standard setting, the interrelationship between the different types of standards supports the need to strive for consistency between them.

purposes of its second report on *Audit quality measures, indicators and other information 2019-20 (Report 678 December 2020)*⁸².

In that regard, based on a letter addressing the subject ‘disclosure of fees to auditors’ from ASIC to the AASB Chair dated 11 November 2019,⁸³ ASIC suggested:

“... the AASB may wish to consider whether there would be benefit in amending AASB 1054 to require fees paid and payable to auditors to be disclosed for each of the following categories:

- (a) Fees to the group auditor for:
 - (i) auditing the statutory financial report of the parent covering the group;
 - (ii) auditing the statutory financial reports of any controlled entities;
- (b) Fees for assurance services that are required by legislation to be provided by the auditor (e.g. for certain reporting to the Australian Prudential Regulation Authority, or for the auditor’s report to ASIC on an Australian Financial Services licensee using Form FS 71);
- (c) Fees for other assurance services and agreed-upon-procedures services under other legislation or contractual arrangements (e.g. assurance on revenue information under a royalty agreement) where there is discretion as to whether the service is provided by the auditor or another firm; and
- (d) Fees for other services (e.g. tax compliance).”

As noted in the Methodology section 1.2 above, the primary focus of this Report is on requirements in overseas jurisdictions rather than practice in Australia. Accordingly, this Report has not considered in detail these four auditor remuneration disclosure categories nor the process by which they were identified. However, in addressing the issues raised for consideration throughout this Report, regard could also be had to any implications of the findings that are documented in the ASIC 2020 report *Audit quality measures, indicators and other information 2019-20 (Report 678 December 2020)*.

5.3 Types of entities that should be subject to any new disaggregation requirements

As mentioned in section 3.2 above (see Consideration 3), consideration could also be given to which entities should be subject to any additional disclosure requirements. An extension of the specified categories of non-audit services for disclosure in financial statements would impose additional compliance costs and administration burden on entities that are subject to AAS. Accordingly, further consideration of costs and benefits would be warranted, particularly for non-listed entities, whilst weighing up the relief provided by other jurisdictions against the AASB’s transaction-neutral approach to standard setting. One question that could be addressed is whether some level of relief would need to be provided for entities preparing GPFS-SDS.

Furthermore, as noted in section 3.2.2 above, it is notable that in Australia (and other countries) the non-assurance services that can be provided to audit clients depends on whether the audit client is a PIE or not. Whether this is a preferable basis for differential auditor remuneration disclosure

82 See <https://download.asic.gov.au/media/5900581/rep678-published-22-december-2020.pdf> page 8.

83 The AASB noted the letter as part of agenda item 20.0 at its November 2019 meeting – refer to https://www.aasb.gov.au/admin/file/content102/c3/20.0_CM_OtherBusiness_M173_1574205530349.pdf.



requirements, rather than the distinction between listed and non-listed companies, could also be considered.⁸⁴

84 Definitions of Listed Entity and Public Interest Entity is a current project of the IESBA. An Exposure Draft was approved at its December 2020 Meeting. The proposed Exposure Draft tabled at the IESBA meeting is available at: <https://www.ifac.org/system/files/meetings/files/Agenda-Item-4C-2nd-Read-Clean.pdf>.

Appendix 1: History of Auditor Remuneration Disclosure Requirements in Australia

To provide further context to the issues addressed in this Report, this Appendix provides the history of the Australian auditor remuneration disclosure requirements. The focus is mainly on the history of the current AAS requirements (see section A1.1 below) but, for completeness, a brief history of the current Corporations Act requirements are also provided (in section A1.2 below).

A1.1 History of current AAS requirements

Requirements pertaining to disclosure of information about auditor remuneration (with separate disclosure of audit remuneration and non-audit services remuneration, but without further description or disaggregation) were included in Clause 27 *Remuneration of Auditors* of Schedule 5 *Requirements for financial statements* under subsection 297(1) of the *Corporations Law* of the *Corporations Regulations 1990*.⁸⁵

In 1993 the AASB issued Invitation to Comment *Proposals to Revise Schedule 5 to the Corporations Regulations and Consider Replacement by an Accounting Standard*. Among other things (which are outside the scope of this Report) the Invitation to Comment addressed the then requirements in Clause 27. The AASB considered the responses to the Invitation to Comment and, in 1995, issued Proposed AASB Accounting Standard ED 67 *Information to be Disclosed in Financial Reports*. ED 67 proposed Clause 27 be removed from the Regulations and its content revised as proposed in ED 67 (see extract from ED 67 below). The feedback received on ED 67 was generally supportive of the Board's proposals to incorporate the Schedule 5 (including Clause 27) type disclosure requirements in an AAS with general application to 'reporting entities'. In December 1996, after considering the feedback on ED 67, the AASB issued AASB 1034 *Information to be Disclosed in Financial Reports*, which included auditor remuneration disclosure requirements (continuing to require separate disclosure of audit remuneration and non-audit services remuneration, but without further description or disaggregation) in paragraph 11 (see extract from AASB 1034 below).⁸⁶

AASB 1034 was subsequently reissued and renamed AASB 1034 *Financial Report Presentation and Disclosures* in October 1999. Its paragraph 5.3 (see extract below) required the amount of auditor

85 Before Schedule 5, the relevant disclosure requirements were contained in subclause 2(1)(n) of Schedule 7 to the Companies Codes. That subclause came from the Ninth Schedule to the Uniform Companies Acts of 1961:

"2. (1) There shall be shown separately in the accounts or groups accounts (whether by way of note or otherwise), in addition to any other matters necessary to present a true and fair view of the profit or loss of the company, or of the company and its subsidiaries ...

(m) the amounts (including benefits of any kind) received or due and receivable by the auditors for their services to the company, separate amounts being shown in respect of-

(i) the auditing of the accounts or group accounts; and

(ii) other services-

and the portion of each such amount contributed or to be contributed otherwise than by the company with a statement whether the auditors receive any other benefits, and, if so, the general nature thereof." (Extracted from the Victorian Companies Act 1961 No. 6839 of 1961, at: http://classic.austlii.edu.au/cgi-bin/download.cgi/cgi-bin/download.cgi/download/au/legis/vic/repealed_act/ca1961107.txt.)

86 Differences between the proposals in ED 67 and the requirements in AASB 1034 can be discerned by comparing the extracts from those respective documents below.

remuneration, including the amount of auditor remuneration for non-audit services (but still without further description or disaggregation), to be disclosed in the financial report.⁸⁷

As part of the process of adopting International Financial Reporting Standards (IFRS) in Australia that commenced in 2002 under the FRC strategic direction, the AASB noted IFRS did not include auditor remuneration disclosure requirements. It decided to retain auditor remuneration disclosure requirements in Australia by relocating them from AASB 1034 into AASB 101 *Presentation of Financial Statements* as Australian-specific paragraphs Aus126.1 and Aus126.2 (July 2004 - Principal). Those paragraphs expanded on paragraph 5.3 of AASB 1034 to specifically require the nature of and amount for each category⁸⁸ of non-audit services provided by the auditor to be disclosed. Paragraphs Aus126.1 and Aus126.2 were later renumbered as paragraphs Aus138.1 and Aus138.2 in the September 2007 Principal version of AASB 101.⁸⁹ This requirement applies to all entities required to prepare financial reports in accordance with AAS.

Paragraphs Aus138.1 and Aus138.2 of AASB 101 were subsequently amended and relocated to AASB 1054 *Australian Additional Disclosures* in 2010. The amendments and relocation were done as part of the process of simplifying the requirements and harmonising with New Zealand.⁹⁰ The result was a requirement in both jurisdictions to disclose audit remuneration separately from auditor remuneration for non-audit services in aggregate, with a description of the nature of the non-audit services. Prior to that, paragraph NZ 105.1 of NZ IAS 1 *Presentation of Financial Statements* identified four categories that required separate disclosure: financial statement audit fees; fees for assurance and related services; fees for tax compliance, tax advice, and tax planning services; and all other fees – and required a description of the nature of the latter three categories. In contrast to New Zealand, paragraphs Aus138.1 and Aus138.2 of AASB 101 only identified two categories: audit or review fees; and non-audit fees⁹¹ – and required a description of the nature and amount of each sub-category of the latter, but did not specify the level of that disaggregation. At its March 2010 meeting (agenda item B5), the AASB considered whether to adopt the more comprehensive categorisation in NZ IAS 1, but both Boards rejected it in favour of the more simplified approach. In arriving at their conclusions, the AASB and New Zealand Financial Reporting Standards Board (FRSB) considered disclosure of auditor remuneration is a matter of accountability and, given the accountability environment is similar in both jurisdictions, they should have the same auditor remuneration disclosure requirements. The Boards also took the opportunity to simplify the auditor remuneration disclosure requirements on the basis that in recent times both preparers and users indicated disclosures in financial statements had become overly complex.⁹² This approach was

87 Differences between the December 1996 and October 1999 versions of AASB 1034 can be discerned by comparing the extracts from those respective documents below.

88 The categories were not specified.

89 These changes followed from amendments to the requirements in section 300 of the *Corporations Act 2001* made by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the results of a 2003 Bill), applying from 1 July 2004. Subsection 300(11B) requires “details of the amounts paid or payable to the auditor for non-audit services provided, during the year, by the auditor”. The words ‘details of the amounts’ are taken to require disclosure of amounts for types of services.

90 The emphasis was not on the requirements in other overseas jurisdictions. See the following link for an extract from the minutes relating to the AASB-FRSB joint meeting (17-18 March 2010) on agenda item B5 Trans-Tasman Convergence:

https://www.aasb.gov.au/admin/file/content102/c3/Extract_from_Minutes_AASB_17-18_March_2010_Meeting_-_Aust_NZ_Convergence.pdf.

91 Related practice fees were also required to be separately disclosed.

92 Paragraph [BC6 of AASB 1054 on page 17](#).

consistent with a view that assessments of risk to auditor independence from non-audit services can be made with information about the total remuneration for non-audit services together with a description of the nature of those services (see, for example, the first paragraph of section 4 in the body of this Report) without further disaggregation.

In the context of differential reporting, the AASB issued a Consultation Paper titled [*Differential Financial Reporting – Reduced Disclosure Requirements*](#) on 4 December 2009. It proposed a Reduced Disclosure Regime (RDR) as a second tier of GPFS reporting requirements applicable to the following types of entities: (a) for-profit private sector entities that do not have public accountability; (b) not-for-profit private sector entities; and (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments. The Consultation Paper was intended to be read in conjunction with the Exposure Draft 192 *Revised Differential Reporting Framework* (issued February 2010). ED 192 cross-references to an analysis of the proposed disclosures that concludes in relation to the types of entities that are the subject of RDR paragraphs Aus138.1 and Aus138.2 of AASB 101 (2010) do not appear to meet any of the identified needs of users of financial information (see paragraph IN6 of ED 192), and therefore should be excluded from the RDR. The proposals contained in ED 192 were implemented via amending standard [*AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure requirements*](#).

In March 2020, AASB issued a new separate disclosure Standard, [*AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*](#), to replace the current Reduced Disclosure Framework and provide disclosure relief to all entities reporting under Tier 2 of the Differential Reporting Framework. AASB 1060 applies from 1 July 2021, but early adoption is permitted. Paragraphs 98 and 99 require an entity to disclose auditor/reviewer (including any network firm) fees, and describe the nature thereof, separately for: (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period. AASB 1060 does not change which entities are permitted to apply Tier 2 reporting requirements and the recognition and measurement requirements of Tier 2 (which are the same as for Tier 1).

The following provides verbatim extracts of the pertinent proposals and requirements mentioned in the above history – enabling discernment of how the original requirements in the Corporations Regulations 1990 have modified over time.

1990: Corporations Regulations 1990 – Schedule 5 Requirements for financial statements under subsection 297 (1) of the Corporation Law - No longer in force

Part 3 Notes to the accounts or consolidated accounts⁹³

“Clause 27 Remuneration of auditors

(1) The accounts for a financial period must include in a note:

- (a) the total of the remuneration received, or due and receivable, for that financial period by the auditor of the company, directly or indirectly, from the company, or any related body corporate, in connection with auditing the accounts of the company; and
- (b) the total of the remuneration received, or due and receivable, for that financial period by the auditor of the company, directly or indirectly, from the company, or any related body corporate, in connection with any other services provided by that auditor to the company.

(2) The consolidated accounts for a financial period must include in a note:

93 http://classic.austlii.edu.au/au/legis/cth/num_reg/cr1990n455308/sch5.html

- (a) the total amount of the remuneration received, or due and receivable, for the period by the auditor or auditors of an entity in the economic entity, directly or indirectly, from an entity in the economic entity, or from related entity, in connection with auditing the accounts and consolidated accounts of the chief entity and the accounts of each of its controlled entities; and
 - (b) the total amount of the remuneration received, or due and receivable, for the period by the auditor or auditors of an entity in the economic entity, directly or indirectly, from an entity in the economic entity, or from a related entity, in connection with other services provided by the auditor or the auditors to an entity in the economic entity.
- (3) If a part of the remuneration referred to in paragraph (2) (a) or (b) has not been received, or is not due and receivable, by the auditor of the chief entity referred to in subclause (2), the note referred to in that subclause must state the amount of that part separately.
- (4) In this clause, auditor, in relation to a company, means:
- (a) a person who has or shares; or
 - (b) a member of a firm which has or shares;
- the duty of making the report required by section 331A of the Corporations Law on the accounts or consolidated accounts of that company.”

1995: Proposed AASB Accounting Standard ED 67 *Information to be Disclosed in Financial Reports* (Dec 1995)

“11 Disclosures – Revenues and Expenses

11.1 The nature and amount of the following items recognised in the profit and loss statement must be disclosed:

...

- (k) auditors’ remuneration for auditing the financial report
- (l) auditors’ remuneration for other services.”

1996: AASB 1034 *Information to be Disclosed in Financial Reports* (December 1996) - No longer in force

“11 Other Disclosures

11.1 The following information must be disclosed:

- (a) in the financial report of an individual entity, the amounts of remuneration of the auditors of the entity for:
 - (i) an audit or review of the financial report of the entity
 - (ii) other services in relation to the entity
- (b) in the financial report of an economic entity, the amounts of remuneration of the auditors of the
 - (i) parent entity, for an audit or a review of the financial report of any entity in the economic entity
 - (ii) parent entity, for other services in relation to any entity in economic entity
 - (iii) subsidiaries in the economic entity, other than that disclosed in accordance with paragraph (b)(i) above, for an audit or review of the financial report of those entities

...

11.1.1 Remuneration of auditors for an audit or a review, as is required to be disclosed by paragraphs 11.1(a)(i) and 11.1(b)(i), includes amounts in relation to an audit of the financial year and the half year financial report and amounts in relation to a review of the half year financial report.”

1999: AASB 1034 *Financial Report Presentation and Disclosures* (Oct 1999) - No longer in force

“5.3 The following information must be disclosed:

- (a) in the financial report of an entity other than an economic entity, the amounts of remuneration of:
 - (i) the auditor of the entity for an audit or a review of the financial reports of the entity
 - (ii) the auditor of the entity for other services in relation to the entity
 - (iii) a related practice of the auditor for other services in relation to the entity
- (b) in the financial report of an economic entity, the amounts of remuneration of:
 - (i) the auditor of the parent entity of the economic entity, for an audit or a review of the financial report of any entity in the economic entity
 - (ii) the auditor of the parent entity of the economic entity, for other services in relation to any entity in the economic entity
 - (iii) a related practice of the auditor of the parent entity of the economic entity, for other services in relation to any entity in the economic entity
 - (iv) the auditors of the subsidiaries in the economic entity, other than those disclosed in accordance with subparagraph 5.3(b)(i), for an audit or a review of the financial reports of those subsidiaries...”

2004: AASB 101 *Presentation of Financial Statements* (July 2004 – Principal) - No longer in force

“Aus126.1 An entity, other than a group, shall disclose in the financial report, the amounts paid or payable to:

- (a) the auditor of the entity for an audit or a review of the financial reports of the entity;
- (b) the auditor of the entity for non-audit services in relation to the entity, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
- (c) a related practice of the auditor for non-audit services in relation to the entity, disclosing separately the nature and amount of each category of non-audit service.

Aus126.2 The following information shall be disclosed in the financial report of a group, the amounts paid or payable to:

- (a) the auditor of the parent of the group, for an audit or a review of the financial report of any entity in the group;
- (b) the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;

- (c) a related practice of the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;
- (d) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraph Aus126.2(a), for an audit or a review of the financial reports of those subsidiaries;
- (e) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
- (f) a related practice of the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor.

2007: AASB 101 *Presentation of Financial Statements* (September 2007 – Principal) - No longer in force

“Aus138.1 An entity, other than a group, shall disclose the amounts paid or payable to:

- (a) the auditor of the entity for an audit or a review of the financial statements of the entity;
- (b) the auditor of the entity for non-audit services in relation to the entity, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
- (c) a related practice of the auditor for non-audit services in relation to the entity, disclosing separately the nature and amount of each category of non-audit service.

Aus138.2 The following information shall be disclosed in relation to a group, the amounts paid or payable to:

- (a) the auditor of the parent of the group, for an audit or a review of the financial statements of any entity in the group;
- (b) the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;
- (c) a related practice of the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;
- (d) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraph Aus126.2(a), for an audit or a review of the financial statements of those subsidiaries;
- (e) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
- (f) a related practice of the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor.”

2010: AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements

Amendments to AASB 101

20 The following subheading and paragraphs are added to AASB 101:

Reduced Disclosure Requirements

Aus1.8 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

- (a) paragraphs 10(f), 15, 16, Aus16.1, Aus16.3, 39(c), 42(b), 61, 65, 80A, 90-92, 94, 104, 131 and 134-Aus138.6;

2010: AASB Exposure Draft ED 200B Proposed Separate Disclosure Standards (July 2010)

Relocation and simplification of auditor remuneration disclosure requirements

ED 200B proposed further changes to the auditor remuneration disclosure requirements, and relocation of them from AASB 101 to AASB 1054 as follows:

Audit fee disclosures

~~An entity, other than a group, shall disclose the amounts paid or payable to:~~

- ~~(a) the auditor of the entity for an audit or a review of the financial statements of the entity;~~
- ~~(b) the auditor of the entity for non-audit services in relation to the entity, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and~~
- ~~(c) a related practice of the auditor for non-audit services in relation to the entity, disclosing separately the nature and amount of each category of non-audit service.~~

~~The following information shall be disclosed in relation to a group, the amounts paid or payable to:~~

- ~~(a) the auditor of the parent of the group, for an audit or a review of the financial statements of any entity in the group;~~
- ~~(b) the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;~~
- ~~(c) a related practice of the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;~~
- ~~(d) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraph Aus126.2(a), for an audit or a review of the financial statements of those subsidiaries;~~
- ~~(e) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and~~

- ~~(f) a related practice of the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor.~~

[Source: AASB 101 paragraphs Aus138.1 and Aus 138.2]

5 An entity shall disclose in the notes fees to auditors (each auditor if more than one) paid or payable:

- (a) for the audit or review of the financial statements; and
(b) for all other services performed during the reporting period. An entity shall describe the nature of other services comprising the fees disclosed under this category.

2011: AASB 1054 Australian Additional Disclosures (May 2011 – Principal) – Currently in force and applicable to Tier 1 GPFS

AASB 1054 was issued as a result of ED 200B:

- “10 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:
(a) the audit or review of the financial statements; and
(b) all other services performed during the reporting period.
11 For paragraph 10(b) above, an entity shall describe the nature of other services.”

Paragraph BC7 of AASB 1054 comments that the AASB and FRSB noted the usefulness of the notion of ‘related practice’ in audit fee disclosures in AASB 101 and decided to incorporate a similar notion that is common to both jurisdictions in the harmonised disclosures. Accordingly, the Boards decided to include the notion of ‘network firm’ from APES 110 and Code of Ethics: Independence in Assurance Engagements issued by the NZICA (September 2008). The Boards also decided to not define or provide explanatory material for ‘network firm’ on the basis the notion is generally understood, and preparers and auditors could refer to the relevant APESB and NZICA pronouncements.

2011: AASB 2011-2 continuing exemption for Tier 2 GPFS-RDR entities

[AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements](#) continues the exemption for entities preparing GPFS-RDR from the disclosure of auditor remuneration as required by paragraphs 10 and 11 of AASB 1054. Paragraph 5A was added to AASB 1054 (May 2011-Principal) to reflect the reduced disclosure requirements originally specified in AASB 2010-2 for AASB 101 disclosures that are now in AASB 1054:

- “ 5A Paragraphs 10-16 of this standard do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements....”

2020: AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities – Effective from 1 July 2021

From 1 July 2021 (early adoption allowed), the GPFS-RDR will be replaced by the new Tier 2 GPFS framework (GPFS-SDS) as detailed in AASB 1060, based on IFRS for SMEs with fewer disclosure requirements than the current Tier 2 GPFS framework. However, in contrast to AASB 1054 as it applies to Tier 2 GPFS, AASB 1060 requires the following auditor remuneration disclosures (which are identical to paragraphs 10 and 11 of AASB 1054):

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

The new Tier 2 GPFS framework was developed using the *IFRS for Small & Medium Size Entities (SMEs)* Standard. In considering the *IFRS for SMEs* Standard, the AASB noted the nature and degree of the differences between the disclosures in full IFRS Standards and the disclosures in the *IFRS for SMEs* Standard are determined on the basis of users’ needs and cost-benefit analyses.⁹⁴

As noted in paragraph BC75 of AASB 1060, stakeholders were generally supportive of adding the requirement to disclose auditor and reviewer remuneration, including any network firm, from AASB 1054 to AASB 1060 (paragraphs 98 and 99). The AASB considered the disclosure of auditor remuneration is a public policy issue (see paragraph BC42 of AASB 1060) and requiring this disclosure would assist in improving auditor independence and accountability, thereby increasing users’ confidence in the quality of financial reports. Furthermore, the AASB noted the term ‘network firm’ is defined in APES 110 issued by APESB (November 2018, incorporating all amendments to April 2018) and that preparers and auditors can refer to APES 110 for guidance.

A1.2 History of current Corporations Act requirements

As noted in Table 1 of section 2 and Appendix 2 of this Report, sections 300(11B)(a) and (11C) of the Corporations Act 2001 specifies, for listed companies, auditor remuneration disclosure requirements. These requirements were introduced through the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill 2003*.⁹⁵

The Corporate Law Economic Reform Program (CLERP) was initiated in 1997. It followed some major corporate collapses in Australia and overseas that gave rise to widespread concern about the efficacy of the audit function, including the independence of auditors. The objective was to establish best practice requirements on auditor independence in Australia. It included consideration of whether to either:

- prohibit non-audit services entirely; or
- allow some non-audit services on the proviso those services and related remuneration are disclosed.

The disclosure-based solution was adopted on the grounds that “Disclosure of the non-audit services contracted between auditors and their clients is sufficient to enable shareholders to determine whether the amount and nature of those services poses an unreasonable threat to independence whilst providing companies the flexibility to garner maximum benefit from the expertise gained in an audit engagement.” (paragraph 4.50).

Accordingly, the Corporations Act now requires listed companies disclose in their annual directors’ report the fees paid to the auditor for each non-audit service, as well as a description of each service (section 300(11B)(a)). In addition, the annual directors’ report of each listed company must include a statement by directors whether they are satisfied the provision of non-audit services does not

94 As per paragraph BC46 of the *IFRS for SMEs* Standard – Part B.

95 See <https://www.legislation.gov.au/Details/C2004B01549/Explanatory%20Memorandum/Text>. (See, for example, paragraphs 4.38 to 4.50).



compromise independence (section 300(11B(b) and (c)). This approach was regarded as providing the most assurance to investors of the integrity of audited financial statement at the time.

Appendix 2: Extracts of Auditor Remuneration Disclosure Requirements for Entities by Jurisdiction

The following table lists the relevant requirements for audit remuneration disclosure in each of the selected jurisdictions. The requirements are quoted verbatim from the standards/legislation in each jurisdiction, except for Germany whose original document is in German and was translated into English by AASB staff.

Jurisdiction	Entity type	Auditor remuneration disclosure requirement
Australia	All entities that prepare GPFS (but excluding entities preparing GPFS under Australian Accounting Standards – Reduced Disclosure Requirements)	<p><u>AASB 1054 Australian Additional Disclosure (November 2019)</u></p> <p>“Audit Fees</p> <p>10 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <ul style="list-style-type: none"> (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period. <p>11 An entity shall describe the nature of other services.”</p>
	Tier 2 Entities that prepare GPFS under the Australian Accounting Standards – Simplified Disclosure	<p><u>AASB 1060 Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (March 2020)</u></p> <p>“Audit Fees</p> <p>98 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <ul style="list-style-type: none"> (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period. <p>99 An entity shall describe the nature of other services.”</p>
	Listed companies	<p><u>Corporations Act 2001 - Section 300</u></p> <p>“Listed Companies -- non-audit services and auditor independence</p> <p>...</p> <p>(11B) The report for a listed company must also include the following in relation to each auditor:</p> <ul style="list-style-type: none"> (a) details⁹⁶ of the amounts paid or payable to the auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf); <p>...</p> <p>(11C) For the purposes of paragraph (11B)(a), the details of amounts paid or payable to an auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf) are:</p>

96 As per section 300(2) of the Corporation Act, “Details do not have to be included in the directors’ report under this section if they are included in the company’s financial report for the financial year.” Further, section 300(2A) of the Corporation Act states that “if subsection (2) [of section 300] is relied on to not include in the directors’ report for a financial year details that would otherwise be required to be included in that report under paragraph (11B)(a) or (11C)(b), that report must specify, in the section headed “Non-audit services”, where those details may be found in the company’s financial report for that financial year.”

Jurisdiction	Entity type	Auditor remuneration disclosure requirement
		<ul style="list-style-type: none"> (a) the name of the auditor; and (b) the dollar amount that: <ul style="list-style-type: none"> (i) the listed company; or (ii) if consolidated financial statements are required – any entity that is part of the consolidated entity; paid, or is liable to pay, for each of those non-audit services.” [footnote added]
Canada	Reporting Issuers. A reporting issuer includes any issuer that has any securities that have been at any time listed and posted for trading on any exchange	<p><u>National Instrument 52-110F1 Audit Committee Information Required in an AIF</u></p> <p>“9. External Auditor Service Fees (By Category)</p> <ul style="list-style-type: none"> (a) Disclose, under the caption “Audit Fees”, the aggregate fees billed by the issuer’s external auditor in each of the last two fiscal years for audit services. (b) Disclose, under the caption “Audit-Related Fees”, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the issuer’s external auditor that are reasonably related to the performance of the audit or review of the issuer’s financial statements and are not reported under clause (a) above. Include a description of the nature of the services comprising the fees disclosed under this category. (c) Disclose, under the caption “Tax Fees”, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the issuer’s external auditor for tax compliance, tax advice, and tax planning. Include a description of the nature of the services comprising the fees disclosed under this category. (d) Disclose, under the caption “All Other Fees”, the aggregate fees billed in each of the last two fiscal years for products and services provided by the issuer’s external auditor, other than the services reported under clauses (a), (b) and (c), above. Include a description of the nature of the services comprising the fees disclosed under this category.”
Germany	Medium and large corporations (joint stock companies, limited partnerships on shares and limited liability companies) and certain partnerships	<p><u>German Commercial Code - S285 (Company)/314 (consolidated financial statements) - Other mandatory information (Source document in German, translated to English by AASB staff)</u></p> <p>The following must also be stated in the notes to the company's financial statements or in the notes to the consolidated financial statements:</p> <p>17 The total fee charged by the auditor of the company (of the consolidated financial statements) for the financial statements, broken down into the fee for:</p> <ul style="list-style-type: none"> a) audit services, b) other assurance services, c) tax services, and d) other services. <p>*The requirements in S314(9) for consolidated entities is the same as the requirements in S285(17) for companies. Therefore it is not included here to avoid repetition.</p>

Jurisdiction	Entity type	Auditor remuneration disclosure requirement
Hong Kong	Public companies, and other private companies or groups that do not meet the requirements for the reporting exemption (for information required to be in the financial statements) in Section 359 of Hong Kong Companies Ordinance (Cap. 622). ⁹⁷	<p><u>Hong Kong Companies Ordinance (Cap. 622) - Schedule 4 Part 2</u></p> <p>“1. Remuneration of auditor</p> <p>(1). A company’s financial statements for a financial year must state, under a separate heading, the amount of the remuneration of the auditor.</p> <p>(2). In this section—</p> <p>remuneration (酬金), in relation to an auditor of a company, includes any sum paid by the company in respect of the auditor’s expenses.”</p>
	Entities listed on the Stock Exchange of Hong Kong (HKSE)	<p><u>Listing Rules - Appendix 14 Corporate Governance Code and Corporate Governance Report</u></p> <p>“M. AUDITOR’S REMUNERATION</p> <p>An analysis of remuneration in respect of audit and non-audit services provided by the auditors (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) to the issuer. The analysis must include, in respect of each significant non-audit service assignment, details of the nature of the services and the fees paid.”</p>
New Zealand	All entities preparing Tier 1 GPFS in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).	<p><u>FRS 44 - New Zealand Additional Disclosure</u></p> <p>“8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <p>(a) the audit or review of the financial statements; and</p> <p>(b) all other services performed during the reporting period.</p> <p>8.2 For 8.1 (b) above, an entity shall describe the nature of other services.”</p>
	Both public sector entities and not-for-profit entities in the private sector preparing and presenting GPFS in accordance with Public Benefit Entities (PBE) Standards. ⁹⁸	<p><u>PBE IPSAS 1 Presentation of Financial Statements</u></p> <p>“*116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <p>(a) The audit or review of the financial report; and</p> <p>(b) All other services performed during the reporting period.</p> <p>*116.2 To comply with paragraph 116.1 above, an entity shall describe the nature of other services.”</p>

⁹⁷ Reporting exemptions are typically available for small private companies, small guarantee companies and private companies that do not carry on any banking and hold a valid banking licence, or is corporation licensed under Part V of the Securities and Futures Ordinance, or insurance business otherwise than solely as an agent.

⁹⁸ This standard applies to Tier 1 PBEs only.

Jurisdiction	Entity type	Auditor remuneration disclosure requirement
Singapore	Listed entities	<p><u>Code of Corporate Governance - Practice Guidance 10: Audit Committee</u> (page 17)⁹⁹</p> <p>“The AC should report to the Board how it has discharged its responsibilities and whether it was able to discharge its duties independently. The activities the ACs should report to the Board include:</p> <p>...</p> <p>(c) the AC's assessment of the independence and objectivity of the external auditors, taking into consideration the requirements under the Accountants Act (Chapter 2) of Singapore, including but not limited to, the aggregate and respective fees paid for audit and non-audit services and the cooperation extended by Management to allow an effective audit.</p> <p>...”</p>
South Africa	Municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities. There is no requirement in South Africa for other entities to disclose remuneration for audit-services or non-audit services.	<p><u>Local Government: Municipal Finance Management Act</u></p> <p>Other compulsory disclosures</p> <p>“125. (1) The notes to the financial statements of a municipality must include—</p> <p>...</p> <p>(c) the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year.</p> <p>...”</p>
UK	Companies that are not small or medium-sized companies. Types of companies include: <ul style="list-style-type: none"> Limited and unlimited companies 	<p><u>Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (Statutory Instrument 2008/489), as amended by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (Statutory Instrument 2011/2198).</u></p> <p>“5.— (1) A note to the annual accounts of a company which is not a small or medium-sized company must disclose the amount of—</p> <p>(a) any remuneration receivable by the company's auditor, or an associate of the company's auditor for the auditing of those accounts; and</p> <p>...</p>

99 As per [Code of Corporate Governance 2018](#) (paragraph 2 of the Introduction), “The Code aims to promote high levels of corporate governance in Singapore by putting forth Principles of good corporate governance and Provisions with which companies are expected to comply. The *Practice Guidance* complements the *Code of Corporate Governance* by providing guidance on the application of the Principles and Provisions and setting out best practices for companies. Adoption of the *Practice Guidance* is voluntary.”

The *Code of Corporate Governance* is on a comply-or-explain basis. This means companies are expected to comply with the Provisions, and variations from Provisions are acceptable to the extent companies explicitly state and explain how their practices are consistent with the aim and philosophy of the Principle in question. The explanations of variations should be comprehensive and meaningful. More details at <http://rulebook.sgx.com/rulebook/introduction-1>

Jurisdiction	Entity type	Auditor remuneration disclosure requirement
	<ul style="list-style-type: none"> Private and public companies Companies limited by guarantee Community interest companies 	<p>(3) Separate disclosure is required in respect of the auditing of the accounts in question and of each type of service specified in Schedule 2A, but not in respect of each service falling within a type of service.”</p> <p>“SCHEDULE 2A</p> <p>Type of service in respect of which disclosure is to be made</p> <ol style="list-style-type: none"> 1. The auditing of accounts of any associate of the company. 2. Audit-related assurance services. 3. Taxation compliance services. 4. All taxation advisory services not falling within paragraph 3. 5. Internal audit services. 6. All assurance services not falling within paragraphs 1 to 5. 7. All services relating to corporate finance transactions entered into, or proposed to be entered into, by or on behalf of the company or any of its associates not falling within paragraphs 1 to 6. 8. All non-audit services not falling within paragraphs 2 to 7.”
	<p>Small and medium sized companies.¹⁰⁰</p> <p>Types of companies include:</p> <ul style="list-style-type: none"> Limited and unlimited companies Private and public companies Companies limited by guarantee Community interest companies 	<p><u>Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (Statutory Instrument 2008/489), as amended by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (Statutory Instrument 2011/2198).</u></p> <p>“4.— (1) A note to the annual accounts of a small or medium-sized company must disclose the amount of any remuneration receivable by the company’s auditor for the auditing of those accounts.</p> <p>...”</p>
US	Public companies (listed)	<p><u>FORM 10-K ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT 1934</u></p> <p>“Item 14. Principal Accountant Fees and Services</p> <p>Furnish the information required by Item 9(e) of Schedule 14A (§240.14a-101 of this chapter)</p> <p>(1). Disclose, under the caption <u>Audit Fees</u>, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant’s annual financial statements and review of financial</p>

100 A company qualifies as a small company in a year in which it satisfies two or more of the following criteria: 1) turnover not more than £10.2 million; 2) balance sheet total not more than £5.1 million; and 3) number of employees not more than 50 (Section 382 of *Companies Act 2006*). A company qualifies as a medium-sized company in a year in which it satisfies two or more of the following criteria: 1) turnover not more than £36 million; 2) balance sheet total (i.e. the aggregate of the amounts shown as assets in the company’s balance sheet) not more than £18 million; and 3) number of employees (i.e. average number of persons employed by the company in the year, refer to the link enclosed for more detail) not more than 250 (Section 465 of *Companies Act 2006* <https://www.legislation.gov.uk/ukpga/2006/46/section/465>).



Jurisdiction	Entity type	Auditor remuneration disclosure requirement
		<p>statements included in the registrant's Form 10-Q (17 CFR 249.308a) [Quarterly reporting] or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.</p> <p>(2). Disclose, under the caption <u>Audit-Related Fees</u>, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under Item 9(e)(1) of Schedule 14A. Registrants shall describe the nature of the services comprising the fees disclosed under this category.</p> <p>(3). Disclose, under the caption <u>Tax Fees</u>, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category.</p> <p>(4). Disclose, under the caption <u>All Other Fees</u>, the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in Items 9(e)(1) through 9(e)(3) of Schedule 14A.</p> <p>..."</p>

Appendix 3: Other Possible Issues for Consideration

As explained in the Scope section 1.1 of this Report, the research undertaken for the purposes of this Report identified a number of issues that, although not directly pertinent to the first component of PJC's Recommendation 3, are potentially indirectly relevant. They are documented in this Appendix, without detailed analysis, as some of them might be given further consideration as part of a more comprehensive review of auditor remuneration requirements in Australia that could be undertaken at the same time the PJC's Recommendation 3 is being considered, or subsequently.

Broadly, two types of issues were identified:

- those identified independently of the comparison with overseas jurisdictions; and
- those identified through the comparison with overseas jurisdictions.

A3.1 Issues independent of the comparison with overseas jurisdictions

A3.1.1 Clarity in how the requirements are expressed

Consideration A3.1: should the current Australian auditor remuneration disclosure requirements be re-expressed to improve their clarity?

The requirements in AAS make reference to 'fees', which could give rise to a range of questions, including:

- Is that term being consistently interpreted?
- Are users getting the information they need?

Addressing these questions could help clarify a number of potential issues, including:

- whether 'fees' relate to fees paid or fees incurred;
- the perspective from which 'fees' are determined (e.g. fees paid and payable by the audit client or fees billed by the auditor);
- whether the subsection heading 'audit fees' (preceding paragraphs 10 and 11 in AASB 1054 and preceding paragraphs 98 and 99 of AASB 1060) is the most appropriate heading. Or whether it should be amended to 'auditor fees', 'auditor remuneration' or indeed 'auditor or reviewer fees/remuneration'; and
- whether any services provided pro bono to not-for-profit entities are subject to any disclosure requirements.

Section 300(11B) of the Corporations Act makes reference to 'each auditor', which could give rise to the question:

- Is that term being consistently interpreted by preparers and auditors in practice (i.e. whether 'each auditor' refers to each auditor in the group or only each auditor of the legal entity that is preparing the directors' report (i.e. the parent entity))?

A3.1.2 Interrelationship between the AAS and Corporations Act requirements

The disclosure requirements for auditor remuneration in the annual directors' report under sections 300(11B)(a) and (11C)(b) of the Corporations Act appear to largely align with the corresponding disclosure requirements of AASB 1054 and AASB 1060, except for the following differences, summarised in the table below, the last column of which identifies some potential implications:

Differences in Auditor Remuneration Disclosure Requirements in AAS and Corporations Act			
Possible issue	AAS (AASB 1054 and AASB 1060) [Financial Statements]	Corporations Act [Annual Directors' Report]	Possible implications that could be considered
How is 'auditor' expressed	"auditor or reviewer, including any network firm"	"auditor (or ... another person or firm on the auditor's behalf)"	<p>In relation to the reference to 'reviewer' in AAS but not in the Corporations Act, the Corporations Act specifies in Section 9 that audit "means an audit conducted for the purposes of this Act and includes a review of a financial report for a financial year or a half-year conducted for the purposes of this Act", and therefore 'reviewer' in the context of the Corporations Act would not seem relevant. Therefore, this difference would not be expected to give rise to particular issues in the context of this Report.</p> <p>In relation to the reference to 'network firm' compared with 'another person or firm on the auditor's behalf': as noted in Appendix 1 of this Report, the AASB decided to not define or provide explanatory material for 'network firm' on the basis the notion is generally understood, and preparers and auditors could refer to the relevant APESB pronouncements. For consistency within Australia, consideration could be given to the Corporations Act also adopting the term.</p>
How is 'remuneration' expressed	"fees"	"amounts paid or payable"	Following on from the dot points immediately above in section A3.1.1 of this Appendix, consideration could be given to aligning the terminology used to whichever term would be expected to result in the most consistent interpretation.
Disaggregation of non-audit services	"fees ... for ... all other services performed during the reporting period" and "describe the nature of other services"	"details of the amounts paid or payable to the auditor for non-audit services provided ... for each of those non-audit services"	This issue is related to the main focus of the potential improvements identified for consideration as a result of the comparison with selected overseas jurisdictions undertaken for the purposes of this Report. Accordingly, it is discussed in the body of the Report rather than in this Appendix, other than to note there might be merit in aligning the requirements in AAS and the Corporations Act.

Differences in Auditor Remuneration Disclosure Requirements in AAS and Corporations Act			
Possible issue	AAS (AASB 1054 and AASB 1060) [Financial Statements]	Corporations Act [Annual Directors' Report]	Possible implications that could be considered
Inclusion of consolidated entity	No specific requirements ¹⁰¹	Section 300(11C)(b)(ii) requires disclosure of the dollar amount paid or payable to an auditor for non-audit services by any entity that is part of a consolidated entity, when consolidated financial statements are required.	When issuing AASB 1054 the AASB noted disclosures are made in the context of the scope of the entity reporting and accordingly, in the case of a group, disclosures made in accordance with paragraph 10 of AASB 1054 would include fees paid by the parent and its subsidiaries for each of the parent and its subsidiaries (paragraph BC8 of AASB 1054). The AASB therefore decided it was not necessary to make the requirement explicit in the same way the Corporations Act does. This same rationale is relevant in relation to the auditor remuneration disclosure requirements in AASB 1060. Consideration could be given to whether the same rationale could apply in a Corporations Act context and thereby simplify the drafting of the Corporations Act.

Depending on how the last two issues identified in the table above are resolved:

Consideration A3.2: should the current Australian auditor remuneration disclosure requirements be amended by either (a) removing the requirements from the Corporations Act altogether and relying instead on AAS (amended if necessary); or (b) if the two sets of requirements are to be retained, extending the Corporations Act to apply beyond listed companies?

A3.2 Issues arising out of the comparison with overseas jurisdictions

A3.2.1 Terminology used for the requirements

Consideration A3.3: should the current Australian auditor remuneration disclosure requirements be re-expressed for the sake of greater consistency across terminology to achieve better international comparability?

Not only is the terminology used different within the Australian requirements (see immediately above in section A3.1 of this Appendix), there are variations in how 'auditor' and 'auditor remuneration' are expressed in relevant legislation across the jurisdictions, as shown in the second column of Table 3 in Section 3.2.2 of this Report. In particular:

- the term 'fees': Australia and New Zealand use the term 'fees', not explicitly stating whether 'fees' is a cash or accrual notion. Canada and US both use the term 'fee billed'. UK express auditor remuneration as 'remuneration receivable'. Hong Kong uses the expression 'sum paid ... in respect of the auditor expenses'. Germany refers to auditor remuneration as fee charged by the auditor of

¹⁰¹ Paragraph Aus138.2(d) of AASB 101 used to require disclosure of the amounts paid or payable to the auditors of the subsidiaries in the group. That requirement was removed as part of simplification when auditor remuneration disclosure requirements were relocated to AASB 1054 in 2010 – see Appendix 1 of this Report for the historical background.

the company. In relation to audit committee requirements, Singapore uses the expression ‘aggregate and respective fees paid for audit and non-audit service’.

- the term ‘auditor’: Australia uses the term ‘auditor or reviewer’. Canada refers to the ‘issuer’s external auditor’ while the US refers to ‘principal accountant for the audit’.
- ‘network firm’: Australia and NZ refer to ‘auditor or reviewer including any network firm’ while UK refers to the ‘company’s auditor, or an associate of the company’s auditor’. Other jurisdictions do not specify the inclusion of any network firm.

In due course, empirical research could be undertaken to ascertain the extent to which the inconsistencies create inadequate information for users.

A3.2.2 Source of the disclosure requirements

Consideration A3.4: should the current Australian auditor remuneration disclosures requirements continue to be specified in AAS?

Australia and New Zealand are the only two jurisdictions that have specified disclosure of auditor remuneration through accounting standards. The other jurisdictions have specified disclosure either through company law (or equivalents) (Germany, HK, and UK) or through securities law (US and Canada).¹⁰²

Some time ago Australia went through a thorough due process and decided to locate auditor remuneration requirements in accounting standards – see Appendix 1 of this Report for the historical background to this decision. There are no particular factors found during the process of undertaking the research underpinning this Report that indicate there is a need to rethink this decision in an Australian context.

A3.2.3 Location of the disclosures

Consideration A3.5: should the current Australian auditor remuneration disclosures continue to be required to be located in a note to the financial statements/directors’ report?

The most common location where auditor remuneration disclosures are required to be made is in a note to the financial statements. It is only the US and Canada that require disclosure in separate filings (Form 10K and the Annual Information Form (AIF) respectively) that get lodged with the respective Securities Commissions.

Based on the history of Australian requirements (see Appendix 1 of this Report), the research undertaken for the purpose of this Report did not identify any reason to reconsider this issue in an Australian context, except to give consideration to the relationship between the accounting standards and Corporations Act as noted in section A3.1.2 of this Appendix above.

102 Securities law requires public companies to make disclosures to investors while company/corporate law sets forth substantive norms regulating the internal affairs of corporations. The primary goal of securities law is investor protection. Securities law protects the investor when trading whereas corporate law protects the investor as an owner. Park J. (2016), Reassessing the Distinction Between Corporate and Securities Law, *Harvard Law School Forum on Corporate Governance*, <https://corpgov.law.harvard.edu/2016/06/03/reassessing-the-distinction-between-corporate-and-securities-law/>.



A3.2.4 Disclosures to be audited

Consideration A3.6: should the current Australian auditor remuneration disclosures continue to be subject to audit?

In all jurisdictions where the auditor remuneration disclosures are made in the notes to the financial statements, the disclosures are subject to audit (to the same extent as the financial statements).

In Canada and the US, where the disclosures are made outside of the financial statements, there is no requirement for the disclosures to be audited.

Based on the history of Australian requirements (see Appendix 1 of this Report), the research undertaken for the purpose of this Report did not identify any reason to reconsider this issue in an Australian context.