



THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

IFIC Audit Fee Disclosure

December 19, 2023



In April 2021, the International Ethics Standards Board for Accountants (IESBA) issued its Final Pronouncement document *Revisions to the Fee-related Provisions of the Code* (the “IESBA Pronouncement”) and related Basis For Conclusions ([Final Pronouncement: Revisions to the Fee-related Provisions of the Code | Ethics Board](#)) and in January 2022 a set of [frequently asked questions \(FAQs\)](#). Among other items, the IESBA Pronouncement requires public disclosure of fees paid or payable to the auditor of Public Interest Entities in two main categories: audit of financial statements (referred to as "audit services" in this document) and services other than audit. This pronouncement is effective for audits of financial statements for periods beginning on or after December 15, 2022.

When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence (*provision 410.4 A1*). The objective of the pronouncement is to help manage the heightened expectations regarding firms’ independence when audit clients are public interest entities.

IFIC established a subgroup (the “subgroup”) composed of representatives of IFIC issuer members and public accounting firms to discuss issues regarding interpretation and application of these requirements as they relate to investment funds that are Public Interest Entities.

The following is a summary the discussions of the subgroup:

Issue 1: To what fund entities does the IESBA pronouncement apply?

- The IESBA fee reporting standards apply to the audits of Public Interest Entities (PIE).
- In Canada, and in the context of investment funds, the IESBA auditor fee reporting pronouncement currently applies to Canadian Reporting Issuers (CRI).
- The interpretation of what constitutes a PIE in Canada is evolving and may be expanded which could result in more entities becoming subject to these requirements. The subgroup did not consider the impact of the IESBA pronouncement to entities other than CRI investment funds.
- The subgroup discussed whether the existing requirements in NI 81-106 which requires disclosure of audit fees in the statement of comprehensive income already meets the requirements for audit fee disclosure under this pronouncement and noted that the NI 81-106 requirements do not include the disclosure requirement of both audit fees and fees for services other than audit. As such, the IESBA pronouncement results in incremental supplemental disclosure requirements over the existing requirements under NI 81-106.

Issue 2: Where can the required fee disclosure be made?

The subgroup discussed several potential alternative locations to include the required disclosures:

- *Public domain website of the fund complex* – the subgroup noted this option may be considered by some to be more convenient than other alternatives. If disclosed on the website, the subgroup agreed that the issuer would not need to also reference the website disclosure in other fund-related materials, however it would not be inappropriate to do so.
- *Simplified Prospectus* – within the prospectus, it was agreed it would be appropriate to include immediately following the existing prospectus disclosure regarding the independence of the auditor, as this would be easily accessible and clearly presented to stakeholders. The subgroup noted that while the option to disclose in the prospectus was currently an acceptable alternative for many investment funds, it would not be an option for funds such as closed-end funds which are not continuously offered and thus do not file an annual prospectus. With those funds, such disclosure may alternatively be included in the fund's *Annual Information Form (AIF)*. The subgroup further noted that should the current annual prospectus renewal requirement be changed in the future to a bi-annual requirement, disclosure in the simplified prospectus would no longer be an acceptable alternative since the fees must be disclosed annually.
- *Management Report of Fund Performance (MRFP)* – an acceptable alternative, however it was noted that the regulators may prefer not to include such disclosure in this document given its prescriptive disclosures as required by regulation.
- *Management's Statement of Responsibility for Financial Reporting* – for funds that include such a statement this is an acceptable location.
- *Notes to financial statements* – an acceptable location, noting that this becomes audited content once included in a set of audited financial statements.
- *Auditor's Report* – the subgroup noted that while meeting the requirements, given the way in which the IESBA Pronouncement is set out, this would be considered as the "last resort" option if the other options noted were not taken by the issuer. This method would result in a change to the standard auditor's report and would differ from the audit report of non-investment fund public company issuers and may indicate to readers that the issuer has not agreed to other options which may draw undue attention to the disclosure. Additionally, the subgroup noted that including in the audit report does not support the notion that independence is a joint responsibility of management and the auditor and not just the auditor's responsibility.
- *Independent Review Committee (IRC) Report* – the view of the subgroup was that this was not an acceptable alternative as fees paid to the auditor are not part of the IRC's jurisdiction as the IRC is not a fiduciary body.

Issue 3: What audit and other fees should be disclosed?

- The subgroup noted that the IESBA Pronouncement discusses requirements related to the public disclosure of fee-related information. In practice, the fees disclosed would be separated in two categories “audit fees” and “fees for services other than audit” paid or payable to the auditor. The subgroup further noted the requirements per the Pronouncement to disclose if the total fees received by the audit firm represents more than 15% of the total fees received by the audit firm for two consecutive years and which year this situation arose and agreed it would likely be a rare scenario.
- The subgroup agreed that fees reported should include administration charges, if any, and exclude taxes.
- The subgroup agreed that based on the IESBA Pronouncement, fees for the audit of the financial statements of the funds would be reported (even if paid by the manager), while fees for the audit of the financial statements of the manager and its parent entities would not be reported.
- The subgroup agreed that for fees for non-audit services paid by the manager that are or may be for the benefit of the funds (such as translation, tax return preparation, or PFIC tax services) would be included, even if the manager paid it.
- Additionally, fees for non-audit services paid for by the funds would be reported. However, non-audit services paid for by the manager and clearly only for the benefit of the manager, such as consulting on the strategy of the manager, would not be reported.

Issue 4: Bucketing of “audit fees” vs. “fees other than audit”

- The subgroup noted that it is appropriate to include fees for interim/quarterly reviews in the “audit” bucket.
- The subgroup discussed the bucketing of fees for non-audit services paid by the manager that are or may be for the benefit of funds:
 - For fund tax work (distributions, returns, PFIC reporting), this would be included in the “other” services bucket.
 - Translation could be bucketed into audit if the role of the auditor were limited to the audit support role of the translated financial statements. However, should the auditor perform the translation, as such services could be performed by someone other than the auditor, the consensus view was it would be appropriate to include in “other”
 - Fees to issue consent on a prospectus would be “audit” as the issuance of consent is akin to the auditor reissuing the opinion, it is required by GAAS, and only the auditor can provide the consent.

- Comfort letter procedures (commonly for closed-ended funds), while usually performed by the auditor, such procedures could be performed by another party (such as the agents themselves), and thus it would be appropriate to include as part of the “other” bucket.

Issue 5: Reporting of fees in aggregate vs. at the individual fund level

- The subgroup discussed that reporting at the individual fund level would generally be more administratively burdensome since the audit and other fees for each fund would need to be separately tracked and reported, as opposed to simply reporting a single amount across all funds. Additionally, an amount reported at the individual fund level would commonly be subject to an element of allocation and could result in a less accurate fund-specific reported amount as compared to reporting an aggregate amount. In contrast, reporting at the aggregate level aligns with the spirit of the IESBA Pronouncement by providing better information for stakeholders to assess auditor independence. Nevertheless, the subgroup agreed that reporting at either the aggregate or individual levels was acceptable.
- The subgroup agreed it would also be acceptable if an issuer chose to report fees aggregated for certain groups or types of funds (e.g., reporting fees for all ETFs in aggregate).
- Consensus view of the subgroup was that reporting of a specific “amount” is required as opposed to description of fees such as “audit fees are less than \$xxx” or “fees for non-audit services are less than x% of the reported audit fees.”
- The subgroup agreed that it is acceptable to group fees for Reporting Issuers (to which the public fee reporting requirements of the IESBA Pronouncement apply) with non-Reporting Issuers (to which the public fee reporting requirements do not apply) provided there is explanatory disclosure included. The subgroup agreed the preferred approach would be to report CRI fees exclusively, without blending fees related to CRI and non-RI funds.

Issue 6: Is the prior year comparative required?

- The subgroup agreed that comparatives would not be required for the first year of implementation (for 2023 calendar year-ends). While not specifically required by the IESBA pronouncement, the disclosure of comparatives figures is preferred in subsequent years.

Issue 7: Draft disclosure

- Based on IESBA Pronouncement, the rules do not mandate the description of the other services unless they are deemed to be very significant. The basic fee disclosure would be the minimum requirement; however, funds may provide additional voluntary information such as fees for non-PIEs or additional description of services.
- The following example disclosure was considered by the subgroup to meet the general requirements of the IESBA Pronouncement:

For the year ended December 31, 20XX, fees paid or payable to Firm LLP and its network firms for the audit of the financial statements of Canadian Reporting Issuer funds within ABC Group of funds were \$X.X million (20XX - \$x.x million). Fees for other services were \$0.X million (2022 - \$0.x million).

Note that this example would apply in a case where a Firm LLP and its affiliated firms is the sole auditor for the Group of funds. For situations where different firms audit different funds, modification of the above text would be required.