

**Meeting:** IESBA CAG

**Meeting Location:** New York

**Meeting Date:** September 13-14, 2016

## Agenda Item

# F

### Fees Initiative

#### Objective of Agenda Item

1. To receive an update on the IESBA's Fees initiative.

#### Status of the Initiative and Timeline

2. The IESBA's Strategy and Work Plan 2014-2018 includes a commitment for the IESBA to explore fee-related matters raised by the regulatory community and determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance.
3. In approving due process for certain changes to the independence provisions of the Code pertaining to non-assurance services (NAS) at its March 2015 meeting, the PIOB called on the IESBA to revisit issues on auditor independence and NAS from a broader perspective, including consideration of fee-related issues. In response to this call from the PIOB, and in the context of its strategic commitment to explore fee-related matters, the IESBA established a working group (WG) in July 2015 to initiate fact finding on fee-related matters in various jurisdictions.
4. As an initial step to further potential work in this area, the IESBA commissioned its staff to develop a publication to highlight important considerations that already exist in the Code for auditors in relation to the setting of audit fees. The IESBA Staff publication, [\*Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure\*](#), was released in January 2016.
5. Among other matters, the publication outlines some of the reasons for downward pressure on audit fees. It focuses on the key fundamental principles in the Code to which auditors must pay particular attention in these circumstances. It also highlights the different, but important, roles that those charged with governance, management, regulators and other stakeholders can play in ensuring that financial considerations related to audit fees do not drive actions and decisions that undermine audit quality.
6. At its March 2016 meeting, the IESBA:
  - (a) Approved the WG's Terms of Reference (see the Appendix); and
  - (b) Agreed the scope and focus of, and approach to, the WG's fact finding.
7. Pursuant to approval of the WG's Terms of Reference, the IESBA has commissioned an academic to undertake a review of relevant academic and other literature for purposes of informing the IESBA's future actions on the topic. As part of the fact finding, the IESBA plans to engage with key stakeholders, in particular investors, regulators and audit oversight bodies, firms and the corporate governance community to obtain an understanding of their respective perspectives on the identified fee-related matters.

8. The IESBA will consider a progress report on the fact finding at its September 2016 meeting and a final report at its December 2016 meeting.

### **Matters for CAG Consideration**

9. Representatives are asked to:
  - (a) Note the update and, in particular, the focus and scope of, and approach to, the fact finding exercise as outlined in the WG's Terms of Reference; and
  - (b) Share any preliminary reactions.

### **Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY**

IESBA Staff Publication, *Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure* <http://www.ifac.org/publications-resources/ethical-considerations-relating-audit-fee-setting-context-downward-fee>

## Appendix

### IESBA Fees Working Group—Approved Terms of Reference March 2016

#### A. Background

1. The IESBA has established the Fees Working Group (WG) in light of the commitment in its Strategy and Work Plan, 2014-2018 to explore a number of matters related to audit fees charged by firms with a view to determining whether there is a need for further enhancements to the Code or the commissioning of further staff guidance.

#### B. Objectives

2. The objectives of the WG are to:
  - (a) Undertake fact finding about fees charged by firms in various jurisdictions to identify whether there are trends or other factors that indicate a relationship between fees and threats to auditor independence and compliance with the fundamental principles, or whether there are reasonable perceptions that such threats exist, and how they might be addressed. The fact finding will focus in particular, on whether such relationships exist in the following areas:
    - Level of audit fees for individual audit engagements.
    - Relative size of fees to the partner, office or the firm, and the extent to which partner(s) remuneration is dependent upon fees from a particular client.
    - The ratio of non-audit services fees to audit fees paid by an audit client.
    - The provision of audit services by a firm that also has a significant non-audit services business.
  - (b) Report its findings and recommendations to the IESBA with a view to enabling the Board to determine whether to pursue a project on the topic and, if so, the scope and focus of such a project, or whether to commission further staff guidance.

#### C. Approach

3. The WG's remit will encompass:
  - (a) Benchmarking – Understanding the nature and extent of regulatory responses in the areas noted above, by analyzing relevant ethical rules and regulations, with a focus on G20 countries; and
  - (b) Academic research – Gathering relevant empirical evidence in the areas noted above with respect to actual and perceived threats to auditor independence and compliance with the fundamental principles and how they are being addressed.

#### *Research*

4. The WG will recommend that the IESBA undertake research to be performed by an academic on the topic. With the assistance of the International Federation of Accountants (IFAC), the WG plans to first obtain an understanding of the research that is publicly available on the topic of fees. The WG expects

that such research will culminate in a “summary of research” document.

5. The WG anticipates that the summary of research document will highlight stakeholder perspectives on the topic based on an analysis of regulatory inspection findings and other publicly available and relevant information.
6. On the basis of the summary of research document, the WG will determine whether to recommend that the IESBA undertake:<sup>1</sup>
  - (a) A more detailed synthesis of existing research; or
  - (b) “Original” new customized researchaimed at obtaining a deeper understanding of specific areas or issues.

#### *Outreach*

7. Further engagement with, and outreach to, key stakeholders, in particular investors, regulators and audit oversight bodies, firms and those charged with governance (TCWG), are planned to further understand their various perspectives on the topic of fees. The WG will explore the extent to which specific targeted outreach is necessary in addition to the planned and routine IESBA outreach activities that is currently undertaken by IESBA leadership.
8. With respect to outreach to firms, the WG will seek to understand what specific processes or activities have been established and implemented by firms (including large and small- and medium-sized firms) to address “fee-specific” threats to auditor independence and compliance with the fundamental principles.

#### **D. Consideration of the Public Interest**

9. The work of this WG is intended to be responsive to concerns that have been raised by stakeholders, in particular investors and regulators. Accordingly, the WG’s exploration of whether the IESBA should undertake a project on this topic will include a consideration of the public interest benefits to be derived from addressing the specific issues.

#### **E. Deliverables**

10. The WG will present the Board with a report summarizing its findings and recommendations. Depending on the outcome of its deliberations, the Board may request that the WG develop a project proposal.

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<sup>1</sup> The determination about whether to undertake *further* academic research work (i.e., either an academic synthesis or new “original academic research”) will be dependent on the WG’s and IESBA’s consideration of the summary of research at its September 2016 meeting (see proposed timeline below).

## **F. Tentative Timeline**

11. The Working Group's timeline below is tentative and will be revisited as more information becomes available.

<ul style="list-style-type: none"><li>• Approval of WG Terms of Reference and agreement on the proposed scope of, and approach to, fact-finding and research.</li></ul>	<ul style="list-style-type: none"><li>• March 2016</li></ul>
<ul style="list-style-type: none"><li>• Deliver a progress report to IESBA that will include:<ul style="list-style-type: none"><li>○ Update and preliminary findings from the academic, and the results of the G20 bench-marking study pertaining to fees</li><li>○ Update on the feedback from outreach to key stakeholders, in particular investors, regulators and audit oversight bodies, firms and TCWG to obtain their perspectives on the topic.<sup>2</sup></li></ul></li></ul>	<ul style="list-style-type: none"><li>• September 2016</li></ul>
<ul style="list-style-type: none"><li>• Deliver a final report to IESBA that will include the summary of research document.</li></ul>	<ul style="list-style-type: none"><li>• December 2016</li></ul>
<ul style="list-style-type: none"><li>• Subject to conclusions reached at the December 2016 meeting, IESBA consideration of whether further research is needed, either in the form of:<ul style="list-style-type: none"><li>○ More in-depth analysis of existing research; or</li><li>○ The development of new original research</li></ul></li><li>• aimed at further understanding specific areas or issues.</li></ul>	<ul style="list-style-type: none"><li>• TBD</li></ul>
<ul style="list-style-type: none"><li>• Outreach to key stakeholders, in particular investors, firms regulators and audit oversight bodies, and TCWG to obtain their perspectives on the topic.</li></ul>	<ul style="list-style-type: none"><li>• Ongoing</li></ul>

## **G. Composition**

12. The WG is chaired by a member of the IESBA, with four additional members comprised of IESBA members, Technical Advisors and a representative from KPMG Canada.

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<sup>2</sup> As noted at paragraphs 7–8 above, the WG will explore the extent to which specific targeted outreach is necessary in addition to the planned and routine outreach activities performed by the IESBA Chairman and other IESBA leadership.