

Meeting: IESBA CAG

Meeting Location: Via Zoom

Meeting Date: March 10, 2021

Agenda Item

A-4

Report Back – Fees

Objective of Agenda Item

1. To note the report-back on the September 2020 CAG discussion.

Project Background and Final Outcome

2. In its [Strategy and Work Plan, 2019-2023](#) the IESBA committed to undertaking work to further understand a number of fee-related matters raised by the regulatory community. In addition, the IESBA committed to responding to the Public Interest Oversight Board (PIOB) who had asked the IESBA to revisit issues on auditor independence and “non-audit services” more broadly, including fee-related matters.
3. In September 2018, pursuant to the June 2018 [final report](#) of the Fees Working Group ([Fees Final Report](#)), the IESBA approved the project proposal. The objective of the project was to review the fee-related provisions in the [International Code of Ethics for Professional Accountants \(including the International Independence Standards\)](#) (the “Code”) so that they remain robust and are responsive to the public interest, especially from an independence perspective.

Fees ED

4. In January 2020, the IESBA released the [Exposure Draft on Proposed Revisions to the Fee-related Provisions of the Code](#) (ED). As stated in the ED’s Explanatory Memorandum, the proposed revisions, amongst other matters:
 - Articulated and addressed the issue of threats to independence created when fees are negotiated with and paid by the audit or assurance client.
 - Clarified that the audit fee should be a standalone fee within the spectrum of total fees from the audit client so that the provision of services other than audit does not influence the level of the audit fee.
 - Provided guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by the firm or network firms to an audit client is for services other than audit.
 - Enhanced the provisions regarding fee dependency for public interest entity (PIE) and non-PIE audit clients, including establishing a threshold for addressing threats in the case of non-PIE audit clients.
 - Required the firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency continue beyond a certain period.

- Enhanced transparency with regard to fee-related information for PIE audit clients to assist those charged with governance (TCWG) and the public in forming their views about the firm's independence.
 - Enhanced the robustness of guidance in the Code regarding factors to evaluate the level of the threats created when fees are paid by an audit or assurance client and safeguards to address such threats.
5. [Sixty-four comment letters](#) were received from respondents across a wide range of stakeholder groups, including two Monitoring Group members,¹ other regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies and firms. Respondents generally supported the need to strengthen the fee-related provisions of the Code and the direction of the proposed changes. Respondents also raised comments relevant to the overall direction and consequences of the proposed changes.
 6. During the September 2020 meeting, CAG Representatives were provided an overview of the key comments received on the ED and discussed the Fees Task Force's proposals to address them.
 7. The Appendix to this paper provides a history of previous discussions with the CAG on this topic.

Approval of Final Pronouncement

8. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by CAG Representatives, and approved the [final pronouncement](#) on December 8, 2020. The final pronouncement is expected to be released by the end of April 2021 after the IESBA receives confirmation of the PIOB's approval of the revised Fee-related provisions.
9. The key revisions to the ED are as follows:
 - Removal of the proposed requirement regarding evaluation and re-evaluation of the threats created by fees paid by an audit client, and inclusion of application material instead that appropriately references the pre-existing requirements in the conceptual framework.
 - Highlighting – through inclusion of factors – that the level of the threats created by fees charged by network firms or pertaining to services delivered to related entities is generally expected to be lower.
 - Clarifications regarding the demonstrability of the cost savings achieved as a result of the provision of previous services that firms are allowed to consider when determining audit fees.
 - Emphasizing the benefit to the client's stakeholders of the client making the disclosure of fee-related information, and requiring firms to communicate with TCWG – as a first step – about the benefit of such disclosure.
 - Narrowing the disclosure of fees for the audit of the financial statements to include only fees paid to the firm and network firms; firms are not required to disclose information about fees relating to the audit paid by the client to other firms outside of the network.

¹ International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR)

- Providing exceptions from fee disclosure where there is no requirement to consolidate all controlled entities in the group financial statements, e.g., in the case of private equity complexes.
- Providing exceptions from fee disclosure in the case of certain subsidiaries and parent entities to avoid potential confusion and duplication of effort.
- A more flexible approach for firms to achieve transparency, with more examples of a suitable location for disclosure by the firm. The possible ways of disclosure are in line with the IAASB's approach regarding communication with external parties in ISQM 1.²

10. Below are extracts from the draft minutes of the September 2020 CAG meeting³ and an indication of how the Task Force or IESBA has addressed CAG Representatives' comments.

Matters Raised	Task Force/IESBA Response
THREATS CREATED BY FEES PAID BY AN AUDIT CLIENT	
Mr. Hansen supported the Task Force's proposal for the IESBA to address the issue of threats created by the client relationship as part of a separate project. He was of the view that fees can impact the client-relationship and vice versa, especially where the level of the fees is too low or too high.	Support noted. The topic will be considered as part of the development of the IESBA's next Strategy and Work Plan.
IMPACT OF SERVICES OTHER THAN AUDIT PROVIDED TO AN AUDIT CLIENT	
Regarding the exception provided to the requirement that firms not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client, Mr. Dalkin noted that in jurisdictions where auditors are allowed to prepare financial statements, the proposal may support the argument that this practice is cost-effective. The exception could convey the message that if cost savings can be achieved, firms could argue that the audit client should engage them to provide non-assurance services (NAS) and they can rebate the audit fee because of cost efficiencies. Ms. Wei supported the proposal. However, she also had a concern about the firm's objectivity when	Points taken into account. During the session, Mr. McPhee explained that the Task Force's intention was to acknowledge the benefit of genuine cost savings achieved by previous services rendered. Furthermore, in the revised wording of the exception in paragraph 410.7, the IESBA clarified that firms can consider cost savings to be realized at a later stage of the engagement, but only if they can demonstrate the cost savings when determining the audit fee. The other provisions dealing with the level of the audit fee, the proportion of fees for services other than audit to the audit fee, and transparency of fees to TCWG and to the public will also help to mitigate

² International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ The September 2020 CAG minutes will be approved during the March 2021 IESBA CAG meeting.

Report-back – Fees
 IESBA CAG Meeting (March 2021)

Matters Raised	Task Force/IESBA Response
evaluating the cost savings achieved by the provision of other services.	any potential unintended consequences of this exception in terms of a firm providing a large volume of NAS to an audit client in order to rebate the audit fee.
Mr. Hansen questioned whether the Task Force had considered how to deal with discounts offered when firms intend to move into new markets or business areas or they are in less busy times.	During the session, Mr. McPhee responded that the Task Force considered and deliberately did not propose any provisions on pricing as the proposals clearly set out that determining the level of fees is a business decision. In addition, the audit needs to be performed in compliance with all applicable professional standards.
Ms. Manabat noted that in her experience, firms tend to engage the auditor for the provision of non-audit services if there is a trust that has been built between the audit firm and the client. It is more than just a business consideration. However, she agreed that the audit should not be subsidized by the provision of NAS.	Support noted. While developing the fee-related proposals the IESBA was mindful of changes arising from the NAS project that would significantly restrict the provision of NAS to PIE audit clients.
Mr. Munter noted that he did not disagree with the proposal conceptually. However, he asked how the auditor can demonstrate compliance with this requirement. He pointed out that there are several factors that firms usually take into account when determining the level of audit fees. He was of the view that compliance with this requirement could create some challenges from a quality management perspective.	Point taken into account. The IESBA discussed the concerns raised and reaffirmed that the prohibition in paragraph R410.6 sets out a clear principle that focuses on addressing a behavioral issue. The IESBA envisions this principle to influence firms' policies and procedures on determining audit fees. Consequently, firms could document their approach to compliance with this requirement through such policies.
PROPORTION OF FEES	
Mr. Norberg expressed his support for the Task Force's approach regarding the provisions relating to the proportion of fees and for not setting out a specific cap on NAS.	Support noted.
FEE DEPENDENCY ON NON-PIE AUDIT CLIENTS	
Mr. Norberg was of the view that the proposed threshold and the requirement were reasonable for audit clients that are not PIEs. Mr. Thompson also	Support noted.

Matters Raised	Task Force/IESBA Response
supported the Task Force’s proposals. He noted that even if there is no specific evidence supporting the proposed threshold, it is a balanced, fair and measured approach.	
Mr. Dalkin had a concern that there is nothing that would prevent firms from lowering the audit fees in order to keep the non-audit engagements.	<p>Point taken into account.</p> <p>Since the beginning of the project, the IESBA has emphasized that determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances, including the provision of services other than audit. (See paragraph 410.5 A1.) However, the IESBA was of the view that the revised fee-related provisions will ensure that a firm evaluates whether the threats created by the level of the fee for an audit engagement are at an acceptable level, and if not, address those threats. (See paragraphs 410.5 A2 and A3.)</p>
Mr. Dalkin suggested that the proposal clarify whether the firm can continue the engagement if fees from the client exceed the 30 percent threshold.	<p>During the session, Mr. McPhee responded that in the case of audit clients that are non-PIEs, on balance, the proposal sets out that if an external review is a safeguard to reduce the threats to an acceptable level each year, the firm can continue the engagement. The effect of the safeguard in practice would be to introduce some level of discipline for the firm.</p>
Mr. Hansen asked about the form of the external review.	<p>During the session, Ms. Sramko clarified that the extant Code already includes the review performed by an appropriate reviewer as a safeguard. In this case, however, the review must be performed by a professional accountant outside of the firm.</p> <p>Furthermore, the IESBA agreed to commission IESBA Staff to develop Frequently Asked Questions (FAQs) to address the question regarding the form of the external review.</p>
Mr. Yurdakul suggested further clarification regarding the type of the external review. In relation to the IAASB’s current project on engagement quality review, he questioned whether the review	<p>Please see response above.</p> <p>The IESBA did not propose that the review performed by a professional accountant prior to the issuance of the audit report should be equivalent to</p>

Matters Raised	Task Force/IESBA Response
set out in this proposal is an engagement quality review as contemplated in the IAASB’s project.	an engagement quality review. The IESBA determined that this continues to be a proportionate response.
Ms. McGeachy-Colby was of the view that requiring a review performed by a professional accountant external to the firm would create significant burden for SMPs.	<p>During the session, Mr. McPhee responded that the Task Force believed that the proposed requirement would provide a reasonable balance in the case of such a high level of fee dependency.</p> <p>Given that respondents across the spectrum of stakeholder categories agreed with the approach proposed in the ED, the IESBA did not believe that there was a compelling reason to revisit this position.</p>
Mr. Norberg was the view that a principles-based approach is always best. However, in this case, the proposal appeared balanced and reasonable. Accordingly, he supported it.	Support noted.
Mr. Hirai noted that stakeholders in Japan had concerns that there was not enough evidence that would warrant a requirement in the case of non-PIE audit clients. He suggested that the IESBA consider a post-implementation review of the 30 percent threshold in future.	During the session, Mr. McPhee remarked that the Task Force had already been provided with information about the market specificities in Japan and had considered the possible consequences while developing the current proposal.
FEE DEPENDENCY ON PIE AUDIT CLIENTS	
Ms. Robert asked which year the firm should first have a review performed in the case of fee dependency on PIE audit clients. In this regard, she suggested that the IESBA consider aligning the requirement with the pre-existing requirements in other jurisdictions.	During the session, Ms. Sramko clarified that there were no proposed changes regarding when the firm is first required to have a pre-issuance review performed. There is already a pre-existing difference between the requirements of the extant Code and the EU Regulation.
TRANSPARENCY OF FEE-RELATED INFORMATION	
Mr. Hirai supported the provisions on enhanced transparency and the Task Force’s approach. He commented that the disclosure in the audit report could create the perception that the audit is not of a high quality, especially if stakeholders do not find the audit fee appropriate. He suggested that the	<p>Support noted.</p> <p>During the session, Mr. McPhee responded that the proposal encourages firms to disclose further information that could enhance stakeholders’ understanding about the audit fee and its relationship with the firm’s independence. He added that the IESBA had already consulted with</p>

Matters Raised	Task Force/IESBA Response
Task Force should consult and coordinate with the IAASB regarding the content of the disclosure.	the IAASB regarding the location of the disclosure in the audit report. The fee-related provisions specify the fee information to be disclosed.
From investors' point of view, Ms. Landell-Mills remarked that it is really important to have public disclosure of the fee-related information. In relation to TCWG, she noted that audit reports in many jurisdictions are addressed to the shareholders. Accordingly, she felt it important that TCWG are made aware of the fee-related information as they are responsible for the appointment of auditors.	Support noted.
Ms. McGeachy-Colby supported the enhanced transparency requirements and the Task Force's approach. She asked the Task Force to consider dealing with possible breach situations, as it is quite a complex task for firms to monitor the disclosure in the context of relevant laws and regulations in different jurisdictions. She suggested that the IESBA commission a Q&A publication in relation to the fee-related proposals.	Point taken into account. The IESBA had previously discussed whether the provisions of the International Independence Standards on breaches of independence should apply to non-disclosure of fee-related information. The IESBA was of the view that non-disclosure could affect the firm's independence, particularly independence in appearance. The IESBA concluded that there were no specific reasons to regard this situation as an exception under the IIS. Regarding the Q&A publication, the IESBA agreed to commission IESBA Staff to develop Frequently Asked Questions (FAQs).
Ms. Robert supported the transparency proposals in principle. However, she was of the view that disclosure of fee-related information is a corporate governance issue. She added that requiring disclosure by the firm can put the auditor in a difficult situation, especially when the client refuses to make the disclosure. She also remarked that this could raise confidentiality issues.	During the session, Mr. McPhee responded that if the issue is to be addressed by those responsible for corporate governance requirements, it could be a long time before that happens. In relation to the concern raised that disclosure by the firm could create an adversarial relationship when the client is not required to disclose the fee-related information and refuses to do so, the IESBA noted that the extant Code in paragraph 114.1 A1 already permits the disclosure of information to comply with professional standards, including ethics requirements. In the event that the firm has concerns that the disagreement might give rise to an intimidation threat to independence that is not at an acceptable level, the Code requires the firm to address the intimidation threat by eliminating the

Report-back – Fees
IESBA CAG Meeting (March 2021)

Matters Raised	Task Force/IESBA Response
	circumstances, applying safeguards or declining or ending the specific professional activity.
Ms. Mubarak pointed out that from regulators' perspective, the enhanced provisions on disclosure of fee-related information are important. She added that in Sri Lanka, there are already existing requirements on disclosure of audit fees and non-audit fees.	Supported noted.
OVERALL COMMENTS	
Mr. Kashiwagi noted the PIOB's support for the fee-related proposals, especially the new provisions on fee dependency in the case of non-PIE audit clients and the enhanced provisions on transparency.	Support noted.

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

Approved Revisions to the Fee-related Provisions of the Code <https://www.ifac.org/system/files/meetings/files/Agenda-Item-3B-Updated-Revisions-to-Fee-related-Proposals-Approved-Text.pdf>

Project History

Project: Fees

Summary

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	March 2018	March 2018
Project commencement, including: <ul style="list-style-type: none"> • Consideration of information from fact-finding activities • Approval of project proposal 	September 2018	June 2018 September 2018
Development of proposed international pronouncement (up to exposure)	March 2019 September 2019 March 2020	March 2019 June 2019 September 2019 December 2019
Exposure Draft	January 2020 – June 2020	
Consideration of respondents' comments on the Exposure Draft	September 2020	September 2020 December 2020
Approval of final text		December 2020