

IAASB-IESBA Coordination – Discussion of Identified Proposals of the IESBA Fees Task Force

Objective of the IAASB discussion

The objective of this Agenda Item is to obtain the Board's views about the following overlapping issues with the International Standards on Auditing (ISAs) resulting from proposed changes by IESBA's Fees Task Force to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code):

Transparency of information regarding fees for audit clients that are public interest entities (PIEs), pertaining to –

- Communication about fee-related information and non-assurance services (NAS) with those charged with governance;
- Public disclosure of certain fee-related information.

Section I. Introduction and Status of Coordination

1. The purpose of this paper, together with **Agenda Item 3-A** that has been prepared by IESBA staff, is to provide background information for purposes of the IAASB's discussion of the proposals of the Fees Task Force as they relate to a number of overlapping issues with the International Standards on Auditing (ISAs).
2. The objectives of the Fees Project and the relevant overlapping issues with the ISAs are described in paragraphs 1–8 of **Agenda Item 3-A**.
3. The need for coordination between IESBA and the IAASB was signaled in May 2019, through communication between IESBA staff and IAASB staff. A Joint Working Group (JWG) was subsequently established, comprising the following representatives:
 - IESBA representatives: Ian McPhee (Fees TF Chair), Ken Siong (IESBA TD) and Szilvia Sramko (IESBA staff project lead).
 - IAASB representatives: Imran Vanker (IESBA Liaison), Willie Botha (IAASB TD) and Dan Montgomery (Consultant to the IAASB).
4. The JWG has engaged on two occasions via teleconference, on June 3 and August 14, 2019. In addition, the IAASB representatives have followed the developments regarding the Fees Project. The IAASB representatives also updated the IAASB Steering Committee regarding the Fees Project and their coordination activities in May 2019 and in August 2019.
5. Broadly speaking, the IESBA Fees TF has raised two matters for coordination:
 - (a) The level of audit fees should not affect a firm's ability to perform the audit in accordance with professional standards, including that sufficient and appropriate resources are assigned or made available to perform the audit; and
 - (b) Transparency of information regarding fees for audited entities (the entity(ies)) that are PIEs.

6. The IAASB representatives proposed that the matter in 5(a), above, be dealt with by IAASB staff and cleared with the Chairs of the Quality Management Task Forces. This is ongoing and will include whether it would be necessary to suggest any amendments to the proposed Quality Management standards based on the proposed revisions to the Code. In the normal course of progressing the Quality Management projects, any such matters will come to the IAASB.
7. The matter in 5(b), above, was identified as one that would need to be elevated to Board level for discussion and direction from the IAASB (with the first opportunity being the September 2019 Board meeting). The remainder of this paper deals with the transparency of information regarding fees for entities that are PIEs and the overlapping issues with the ISAs, as follows:
 - Section II, Communication with Those Charged with Governance
 - Section III, Public Disclosure of Fee-Related Information
8. The Chair of the Fees Task Force will attend the September 2019 IAASB plenary session to provide any clarifications needed regarding the Task Force's thinking and direction of the proposals, and to listen to the IAASB discussion. The IESBA will be provided a report back on this discussion during its September 2019 meeting.

Section II. Communication with Those Charged with Governance

9. Paragraphs 9–17 of **Agenda Item 3-A** provide relevant background material in relation to the proposals of the IESBA Fees and NAS Task Forces and the overlapping issue with the ISAs, including four possible options identified by the IESBA representatives. Communication of matters related to auditor independence are addressed in ISA 260 (Revised),¹ paragraph 17, with application material in paragraphs A29–A32.
10. IAASB staff were able to trace the origin of this requirement in ISA 260 (Revised) back to a Project Proposal, dated May 2003². One of the matters for consideration by the Task Force at the time was whether auditor independence should be confirmed to the audit committee (i.e. part of those charged with governance). The IFAC Code of Ethics for Professional Accountants (the IFAC Code) at the time addressed, among other independence requirements, that there should be regular communications between the firm and the audit committee and specifically, the firm should communicate orally, and in writing at least annually, all relationships and other matters that may reasonably be thought to bear on independence. However, the Project Proposal noted that although independence requirements in other jurisdictions are also set out in their respective codes of ethics, national standards also include in their ISA 260 equivalent standard required communication related to the auditor's independence, including, for example, confirmation of the auditor's independence, disclosure of relationships between the auditor (and related entities / businesses) that in the auditor's judgment may bear on independence, safeguards in place related to independence and disclosure on total fees (audit and non-audit related).
11. In March 2005, the IAASB issued an exposure draft (ED) of proposed ISA 260 (Revised). After giving due consideration to the comments received, the IAASB approved a close off document of ISA 260 (Revised) in May 2006, in anticipation of finalizing the standard as part of the IAASB Clarity Project. The requirement relating to the disclosure of information pertaining to auditor independence to those

1 ISA 260 (Revised), *Communication with Those Charged with Governance*

2 IAASB Project Proposal, *Communication with Those Charged with Governance* ([Agenda Item 6-A, May 2003](#))

charged with governance was included in that close off document. In November 2006, the IAASB approved an ED of proposed ISA 260 (Revised and Redrafted) and the Board approved clarified ISA 260 at its meeting in September 2007. ISA 260 was again revised during the IAASB's Auditor Reporting Project; however, the requirements in ISA 260 (Revised) regarding auditor independence were not changed, although there were some editorial changes and restructuring of the application material.

12. One of the revisions coming out of the IAASB's Auditor Reporting Project was the requirement in ISA 700 (Revised),³ paragraph 40(b) that, for audits of listed entities, The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall also state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards. This requirement is linked to the auditor's responsibility to communicate such matters with those charged with governance as required by ISA 260 (Revised).
13. The extant Code (2018, as well as the pre-revised and restructured Code) requires communication with those charged with governance of the following fee-related information (paragraph R410.4 of the 2018 Code):

"Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall: (a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and ..."
14. The extant Code (2018, as well as the pre-revised and restructured Code) does not require the communication of any other fee-related information to those charged with governance.
15. In turn, the ISAs contain an overarching provision in ISA 200,⁴ paragraph 14, that "The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements." This is repeated in a number of places throughout the ISAs, including in ISA 260 (Revised), paragraph A29.
16. It is clear that there are pre-existing requirements in ISA 260 (Revised) and in the extant Code regarding communication with those charged with governance on matters that bear on the auditor's independence and, although different, that they are still aligned, and these requirements have been applied together in practice for some time already.
17. The proposals of the Fees and NAS Task Forces introduce further specificity around certain matters that would be required to be communicated with those charged with governance for entities that are PIEs, as more fully described in paragraphs 9–14 of **Agenda Item 3-A**.

3 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

4 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Matters for IAASB Consideration

1. The IAASB is asked for its views on the four possible options, as presented in paragraph 17 of **Agenda Item 3-A**, to achieve closer alignment between ISA 260 (Revised) and the proposed changes to the Code, including any other possibilities that should be considered.
2. The IAASB is asked whether there are any other matters that the JWG should consider in undertaking its further coordination activities after the September 2019 meetings of the IAASB and IESBA.

Section III. Public Disclosure of Fee-Related Information

18. Paragraphs 18–22 of **Agenda Item 3-A** provide relevant background material in relation to the proposals of the Fees Task Force and the overlapping issue with the ISAs, which pertains to those instances when the firm considers the auditor's report as a suitable location for disclosure of the fee-related information in complying with the requirement in proposed paragraph R410.27 of the Code (read together with the related application material in proposed paragraphs 410.27 A1–A6).
19. The proposals of the Fees Task Force intend to provide flexibility for firms to achieve transparency about fees for entities that are PIEs, including to build on existing laws and regulations requiring public disclosure of fees. Furthermore, the proposals are intended to offer guidance on how to ensure/promote disclosure either by the entity or, if it is not possible, by the firm. Firms would be allowed to determine how and where the relevant fee-related information would be made accessible in a timely manner to the public. It is proposed that the Code would include the auditor's report as an example of the location of such disclosure, among other examples to be pursued by the firm or by the firm with the entity.
20. In accordance with the proposed requirement in paragraph R410.27 of the Code, three elements of fee-related information are required to be publicly disclosed (as more fully described in paragraph 18 of **Agenda Item 3-A**). In order to comply with the Code, all three elements must be disclosed. Therefore, one could anticipate different situations where a particular means of disclosure, for example, in accordance with laws and regulations, could accommodate all three elements, or where different means of disclosure would need to be applied in order to collectively ensure compliance with the requirement.
21. The Code would not be prescriptive in terms of the means to be applied to meet this disclosure requirement; i.e., the Code would allow for flexibility and it would be up to the firm (or the auditor in accordance with the firm's policies or procedures) to pursue that flexibility together with the entity. Nevertheless, there is an implicit hierarchy in that the firm (or auditor) would in the first instance comply with relevant laws and regulations; if the disclosure requirement of the Code is still not satisfied, the firm would pursue appropriate disclosure by the entity and, if the entity does not agree or is unable to make such disclosure, it would be up to the firm to make the disclosure. In the case of the latter, the Fees Task Force proposes two examples for the location of such disclosure, namely the entity's proxy statement or the auditor's report, subject to the principle that the information, by whatever means disclosed, should be appropriately accessible for stakeholders (application material in this regard is included in proposed paragraph 410.27 A6 of the Code).

22. The proposed disclosure requirement of the Code would be satisfied when local laws and regulations require the relevant fee-related information to be disclosed by the entity, and the firm (or auditor) is satisfied that the entity has complied with such provisions. In this regard, the role of local regulators and national standard-setters may be an important consideration in further discussions about the transparency of fee-related information.
23. Based on the considerations above, when the relevant disclosure is not otherwise required by law and regulations in a particular jurisdiction, it is possible that an auditor (in accordance with the firm's policies or procedures) may determine that the auditor's report is the appropriate location for disclosure of the relevant fee-related information (or elements thereof). However, it is also possible that there could be circumstances where the auditor does not have a choice, i.e., as discussed in paragraph 21 above, and the only option may be for the auditor to communicate the required fee-related information in the auditor's report.
24. A further scenario is that local law and regulations may require that the relevant fee-related information be disclosed in the auditor's report (although the IAASB representatives are not aware of any such instances at present).

Other Reporting Responsibilities

25. Disclosure of the relevant fee-related information is not part of the basic reporting elements in ISA 700 (Revised) (i.e., it is not a requirement for all audits of financial statements, or a conditional requirement for audits of listed entities). Reporting responsibilities of the auditor that are not specifically addressed in the ISAs are regarded as *other reporting responsibilities*; i.e. responsibilities beyond those required under the ISAs. ISA 700 (Revised), paragraphs 43–45 address the auditor's other reporting responsibilities.
26. Other reporting responsibilities are required to be addressed in a separate section in the auditor's report, following the section "Report on the Audit of the Financial Statements", with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section. Furthermore, ISA 700 (Revised) provides flexibility by indicating that other reporting responsibilities that address the same topics as those presented under the reporting responsibilities required by the ISAs may be presented in the same section as the related report elements required by the ISAs. In such instance, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs (the application material in paragraph A60 of the standard provides further guidance in this regard).
27. Taking into account the instances considered in paragraphs 23 and 24, above, disclosure about fee-related information as part of other reporting responsibilities would appear to be appropriate in certain cases.

Other Matter (OM) Paragraphs

28. ISA 706 (Revised),⁵ paragraph 10 requires that "If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report ..."
(Emphasis added).

5 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

29. The auditor exercises his/her judgment in the circumstances in determining whether it is necessary to communicate a matter (as defined) in this manner, provided that reporting of such matter is not prohibited by law or regulation or, when ISA 701,⁶ applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. Therefore, the auditor has discretion to provide additional communication in an OM paragraph, but when the auditor chooses to do so, the auditor complies with the requirements of ISA 706 (Revised).
30. ISA 706 (Revised), paragraphs 4 also recognizes that certain ISAs include specific requirements for matters to be communicated in an OM paragraph, namely as set out in Appendix 2 to the standard, in which case the requirements in ISA 706 (Revised) regarding the form of an OM paragraph apply.
31. Taking into account the instances considered in paragraph 23, above, it would appear that an OM paragraph in accordance with ISA 706 (Revised) could be appropriate in certain cases.

Group Audits

32. The Fees Task Force proposes to include the following as application material to the requirement in proposed paragraph R410.27:

"The fees disclosed usually reflect the fees paid or estimated to be paid for the services based on the information available at the time of the disclosure. The fees paid or estimated to be paid for the audit engagement include all such fees paid or payable to firms in relation to the audit work performed on which the audit opinion is based. In the case of a group audit, this would include the work carried out by any component auditor at the direction of the group engagement partner as set out in ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*."

Matters for IAASB Consideration

3. The IAASB is asked for its views on the appropriate location in the auditor's report for communication of relevant fee-related information as proposed by the Fees Task Force in those instances where it is determined that the auditor's report is the appropriate location for such disclosure, including the possibilities discussed in paragraphs 25–31 of this paper or any other possibilities that should be considered.
4. The IAASB is asked for its views on the proposed application material in the Code relating to the determination of the relevant fee-related information in the case of a group audit (refer to paragraphs 32 of this paper).
5. The IAASB is asked whether there are any other matters that the JWG should consider in undertaking its further coordination activities after the September 2019 meetings of the IAASB and IESBA.

6 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*