

## IAASB-IESBA Coordination – IESBA Fees Project

This Agenda Item has been prepared by IESBA Staff and provides background information to the IAASB session on the discussion of identified proposals of the IESBA Fees Task Force.

### Objective of the Fees Project

1. In its [Strategy and Work Plan 2014-2018](#), the IESBA committed to undertaking work to further understand a number of fee-related matters in response to feedback from the regulatory community, in particular the International Organization of Securities Commissions (IOSCO), as well as the changing global environment.
2. In September 2018, pursuant to the June 2018 [final report](#) of its Fees Working Group, the IESBA approved a [Project Proposal](#). The objective of this project is to:
  - (a) Review the provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the “Code”) as these pertain to fee-related matters within the project scope; and
  - (b) Recommend any changes considered necessary for the Code to remain robust and appropriate in enabling professional accountants to meet their responsibility to comply with the fundamental principles and, where applicable, be independent.
3. The scope of the project encompasses the following specific areas:
  - A review of the provisions with respect to the level of audit fees for individual audit engagements, including the role of professional accountants in business (PAIBs) in approving audit fees;
  - A review of the provisions pertaining to fee dependency at the firm, office and partner levels for all audit clients, including considering the introduction of a specific threshold for audit clients which are not public interest entities (PIEs); and
  - A review of the safeguards in the Code pertaining to the scope of this project.
4. The Fees Task Force has coordinated its efforts with the IESBA's Non-assurance Services (NAS) Task Force to develop the proposed text relating to enhanced communication and disclosure about fees and the ratio of fees for services other than audit to audit fees.
5. Based on the issues identified and its preliminary proposals, in May 2019 the Fees Task Force signaled the need to coordinate with the IAASB on a number of overlapping issues with the International Standards on Auditing (ISAs). A Joint Working Group (JWG) was therefore established comprising representatives of the IAASB and IESBA to facilitate the timely coordination of overlapping topics. The JWG has since met twice via teleconference on June 3 and August 14, 2019.

## Overlapping Issues with IAASB Standards

6. The Task Force has identified the following areas of the Fees Project that overlap with the ISAs:
  - (a) Responsibility of the firm and the engagement partner for appropriate resources;
  - (b) Communication of fee-related information with those charged with governance (TCWG); and
  - (c) Public disclosure of fee-related information.
7. Furthermore, the IESBA undertook to consider, as part of its [NAS Project](#), enhanced communication with TCWG regarding independence matters pertaining to the provision of NAS. This includes provisions requiring firms to obtain approval of a NAS engagement from TCWG in advance of that engagement being performed for audit clients (i.e. pre-approval of NAS).
8. As further explained in Agenda Item 3, Section I, this paper does not further address the matters pertaining to resources identified in paragraph 6(a), above (paragraph 7 of Agenda Item 3 provides information regarding the coordination activities on this topic).

## Enhanced Communication of Independence Matters to TCWG Arising from Fees and NAS Projects

### *Communication about Fee-related Information with TCWG*

9. As the level of threats to independence, particularly independence in appearance, is greater for PIEs, the Task Force believes that transparency of fee-related information, in terms of disclosure to TCWG and to the public, would be an effective measure to mitigate those threats. This recognizes that transparency has been an important factor in building trust and demonstrating independence within the body of professional standards.
10. The Task Force is proposing that the Code clearly articulate the aim of, and rationale for, transparency, which is to provide information about fees to TCWG and to the public, to better enable them to form their views on the firm's independence and, in certain cases, make decisions related to the appointment/reappointment of auditors and on audit fees.
11. Regarding communication with TCWG, in respect of a PIE audit client, the Task Force is proposing to require the firm to communicate in a timely manner the following (refer to the [IESBA Agenda Item 3-A \(September 2019\)](#) for the proposed wording in the Code, paragraphs R410.23 to R410.26):
  - The amount of the audit fee and how the firm has complied with the requirement that it be satisfied that the level of the audit fee did not compromise its independence.
  - The amount of fees for non-audit services charged either by the firm or by network firms to the audit client, and in relation to the proportion of such non-audit fees to audit fees, information about any threats identified and safeguards applied.
  - Any fee dependency (total fees from the audit client represent more than 15 percent of the total fee income of the firm) and whether this situation is likely to continue, and the safeguards applied by the firm.
12. The main purpose of the Task Force's proposal is to provide a basis for a meaningful discussion with TCWG about fee-related information of audit clients that are PIEs. In this regard, the Task Force is proposing guidance to explain that such communication assists TCWG in assessing the firm's independence in fulfillment of their responsibilities. The guidance also explains that effective communication allows for a two-way open exchange of views and information about, for example,

the expectations that TCWG might have regarding the scope and extent of audit work and impact on the audit fee.

*Communication about NAS with TCWG*

13. Taking into account feedback from [2018 IESBA Roundtable](#) participants, the NAS Task Force is proposing for PIE audit clients that the Code require firms to obtain the agreement of TCWG regarding the provision of NAS.<sup>1</sup> In conjunction with that requirement, the Task Force is proposing some guidance as to how such pre-approval might be obtained.<sup>2</sup>
14. Further, to provide appropriate information to TCWG to better assist them in making a decision about the provision of the NAS, the NAS Task Force is proposing the following requirement (proposed inclusion in the Code of paragraph R600.18):

Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity (which, for this purpose, shall include only related entities over which the audit client has direct or indirect control), the firm shall provide to those charged with governance of the public interest entity information about:

- (a) The nature and scope of the service to be provided;
- (b) Any threats to independence that might be created by the provision of such service;
- (c) The firm's evaluation of whether any threats identified are at an acceptable level;
- (d) Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level; and
- (e) If actions are proposed to address such threats, why the threats would be eliminated or reduced to an acceptable level.

*Preliminary Options Considered by JWG*

15. The above proposals regarding communication with TCWG are set against the background of the present requirement in ISA 260 (Revised)<sup>3</sup> on communication of independence matters:

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
  - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be

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1 Given that TCWG in some jurisdictions may not have the authority to pre-approve NAS, the NAS Task Force is proposing using the term "obtain concurrence" instead of "pre-approval."

2 References in this paper to the NAS Task Force's proposals are based on the agenda items submitted for the IESBA's discussion at its September 2019 meeting.

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

allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and

- (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)
16. The pre-existing requirement in ISA 260 (Revised) on communication of independence matters is applicable only for listed entities whereas both the Fees and the NAS Task Forces' proposals cover PIEs. The JWG has noted that such a difference in scope already exists with the extant ISAs and the Code (paragraph R410.4 of the Extant Code which requires communication of the fact of fee dependency to TCWG for PIEs) and that these have been applied together for some time already.
17. To achieve closer alignment and eliminate unnecessary duplication between ISA 260 (Revised) and the proposals of the two Task Forces, the IESBA representatives of the JWG have identified the following four possibilities for further discussion:
- (a) Align the scope of the requirements in ISA 260 (Revised) and the Code;
  - (b) Do nothing, i.e., allow implementation of the changes to the Code to settle in the market (in the context of the pre-existing difference in scope between the ISAs and the Code);
  - (c) Withdraw the requirement in ISA 260 (Revised) that relates to communication in relation to independence, including fee information, and allow the Code to deal holistically with communication of independence matters with TCWG (including fees); and
  - (d) Withdraw only the part of the requirement in ISA 260 (Revised) that concerns communication of fee information with TCWG.

#### **Public Disclosure of Fee-related Information**

18. Based on the rationale mentioned above, the Fees Task Force is proposing for PIE audit clients that the Code include a requirement for the firm to be satisfied that the following information is publicly disclosed in a timely manner, providing appropriate accessibility (refer to the [IESBA Agenda Item 3-A \(September 2019\)](#) for the proposed wording in the Code, paragraphs 410.27 to 410.27 A6):
- (a) The amount of the fee for the audit of the financial statements;
  - (b) The amount of fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services to the audit client (which, for this purpose shall include only related entities over which the audit client has direct or indirect control) other than as disclosed under (a); and
  - (c) If applicable, the fact that the total fees received by the firm from the audit client and its related entities represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.
19. The Task Force's proposal regarding public disclosure aims to set out a flexible approach, focusing on guidance about how to achieve transparency for the benefit of the public. The Code would recognize that in many jurisdictions, laws and regulations already require the disclosure of such or similar information. If the information disclosed pursuant to law or regulation substantively satisfies the corresponding requirement of the Code, the Code's requirement would be considered to have been fulfilled.

20. If there is no disclosure requirement in law or regulation, the Task Force proposes guidance regarding how the disclosure requirement could be met. In the first instance, the firm would have the opportunity to consult with the client as to whether the client might agree to disclose the information, for example in the financial statements or the annual report, including any specific public report of TCWG on their assessment of the firm's independence. Otherwise, the Task Force is proposing some examples of possible locations that would meet the disclosure requirement in proposed paragraph R410.27 of the Code, taking into account the condition of appropriate accessibility. These include the audit client's proxy statement or the auditor's report. The Task Force believes it is important that the examples provided are credible.
21. The Task Force is also proposing that the Code explain that the disclosure would be regarded as being appropriately accessible if the information is readily available for any stakeholder in a manner that stakeholders are specifically informed about or the firm has reason to believe that stakeholders know about.
22. In the event that the firm determines to disclose the information in the auditor's report, the Task Force is proposing that the Code include a reference to the relevant section of the report where the disclosure might be made. The purpose of including such a reference in the Code would be to assist firms in meeting the disclosure requirement in a way that would conform with the requirements of the auditor reporting ISAs.

### **Next Steps**

23. Taking into account the views from both the IAASB and the IESBA, the JWG will continue coordination on the overlapping matters as needed.
24. The IESBA will consider the NAS proposals with a view to approving an Exposure Draft at its September 2019 meeting, and the Fees proposals with a view to approving an Exposure Draft in December 2019.