

Fees—Issues and Task Force Proposals

I. Introduction

1. During its September 2019 meeting, the IESBA discussed the Fees Task Force's (Task Force) proposals regarding the changes to the fee-related provisions of the Code. The International Auditing and Assurance Standards Board (IAASB) also considered the Task Force's proposals on overlapping issues with requirements in auditing standards for the first time in a dedicated session at its September 2019 meeting. Subsequent to those meetings, taking into account the comments from both Boards, the Task Force updated its proposals and circulated the proposed changes to Section 410 of the Code¹ to the IESBA and asked for advance comments.
2. In the meantime, the Fees IAASB-IESBA Joint Working Group² (JWG) continued its work relevant for the coordination. The JWG met two times via teleconference and discussed the following overlapping issues:
 - Requirements in the Code and auditing standards regarding communication of fee-related information to those charged with governance (TCWG).
 - Public disclosure of fee-related information in the audit report.
 - Disclosure of audit fees in a group audit context.

The comments and views of IAASB Representatives of the JWG are presented at the respective subsections below.
3. Other activities of the Task Force and consultations with stakeholders since the September 2019 IESBA meeting are summarized in **Agenda Item 2**.
4. Based on the comments provided during the September meeting and subsequently by IESBA and IAASB members and stakeholders, the Task Force developed its current proposals regarding the changes to the fee-related provisions of the Code as set out in **Agenda Item 2-A, 2-B and 2-C**. The purpose of this paper is to present the issues and related Task Force proposals, organized as follows:

II. Fees Paid by the Audit Client

- A. Inherent Self-interest Threat Created by Fees Paid by Audit Client
- B. Level of Audit Fees
- C. Other Matters

III. Total Fees from an Audit Client

- D. Proportion of Fees Paid by the Audit Client
- E. Fee Dependency

¹ Section 410, *Fees*

² At the March 2019 IESBA meeting, the Task Force signaled the need to coordinate with the IAASB on a number of overlapping issues. As a follow up to several internal coordination discussions between IAASB and IESBA staff and leadership, a Joint Working Group comprising representatives of the IAASB and IESBA (including the Task Force Chair) was established to facilitate the timely coordination of overlapping topics arising from the Fees Project.

- F. Transparency of Information Regarding Fees for Audit Client that are PIEs
- IV. Consequential Amendments to Part 4B of the Code
- V. Issues Regarding Anti-trust Laws

II. Fees Paid by the Audit Client

A. Inherent Self-interest Threat Created by Fees Paid by Audit Client

5. Section 330 of the Code³ sets out that the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. Aside from the threats to compliance with the fundamental principles, the Task Force believes that in case of audit engagements, fees paid by the audit client raise issues of independence that should be addressed in the International Independence Standards. To explain the relationship and distinguish between Sections 330 and 410, the Task Force proposes to include a cross-reference to Section 330 at the beginning of Section 410 (see paragraph 410.2).
6. The Task Force's view is based on the risk inherent whenever the subject of an examination directly pays the examiner. In the audit context, the fee for an audit engagement is generally negotiated with and paid by the audit client (which the Code defines as the audited entity). Since the purpose of an audit is to enhance the degree of confidence of intended users in the client's financial statements, it is also necessary for those users to have confidence that the auditor satisfies the fundamental principles, particularly those of objectivity and integrity. This is what the independence provisions of the Code are intended to address. The Task Force therefore proposes that the Code should recognize the inherent risk in the audit client payer model and make clear that fees negotiated with and paid by the audit client create a self-interest and might create an intimidation threat (see paragraph 410.3 A1). The proposals do not specifically address payment by another party given that it is relatively rare in practice.
7. The Task Force notes, however, that if the parties agree that the audit will be carried out for no fee ("pro-bono"), this does not in itself create a self-interest threat to independence, although there might be such a threat to compliance with the fundamental principles (as outlined in Section 330), particularly in relation to principle of competence and due care. In addition, other possibly related facts and circumstances, such as relationships between the stakeholders of the audited entity and the auditor, might create threats to either independence or the fundamental principles. The Task Force considered covering pro-bono work in this section, but given the rationale above, decided it was not the appropriate place to do so.
8. With its current proposals, the Task Force does not intend to suggest any changes to the current business model for audit engagements. While payment of fees is a necessary consequence of doing business, as explained above, it does create an inherent self-interest threat. In this regard, the Task Force noted that a few Board members had questioned that premise in previous Board discussions on the grounds that they have not personally considered it a threat when undertaking audit engagements. The Task Force believes that compliance with professional standards, including ethics requirements, is an important factor that acts to mitigate the threat but this does not mean that it does not exist. Taking into consideration other factors as well, the firm might often conclude that the level of the threats is at an acceptable level. The aim of the proposals therefore is to raise firms' awareness

³ Section 330, *Fees and Other Types of Remuneration*

of the inherent self-interest threat and other threats that might be created, and to provide guidance on how to evaluate and address threats in those cases when they are not at an acceptable level.

Terminology

9. Some IESBA members and stakeholders have suggested that for consistency of application, the Task Force clarify the types of remuneration that Section 410 would cover when reference is made to the audit fee. In response to those comments, the Task Force proposes including application material to explain that “audit fees” comprise fees or other types of remuneration (e.g. transfers of an equivalent amount) for an audit or review of financial statements. (See paragraph 410.3 A3.)
10. However, in some instances⁴ where proposed Section 410 makes reference exclusively to “fees for the audit of the financial statements,” this is not intended to include any fee for an audit of special purpose financial statements⁵ or a review of financial statements.
11. Where reference is made to fees for services other than the audit or the review (e.g. assurance services other than audit or review engagements, and non-assurance services), Section 410 uses the term “fees for services other than audit.”

Evaluation of Threats to Independence

Determining Whether Threats Created Are at an Acceptable Level

12. Given the premise that a self-interest threat to independence is created and an intimidation threat might be created by fees paid by the audit client, the Task Force proposes that the Code require firms to determine whether the threats to independence are at an acceptable level before accepting an audit engagement. In addition, since the level of fees for services other than audit has relevance in relation to audit fees from an independence perspective, the Task Force proposes that this determination be made for any other service provided to the audit client. (See paragraph R410.4.)
13. As fees charged to the audit client could change after the acceptance of the engagement and therefore affect the level of the threats, the Task Force proposes that if there is such change during the period of the audit engagement, the firm should update the determination (see paragraph R410.4). Professional judgment should be exercised in determining the nature, timing and extent of any such update, taking into account the facts and circumstances, including the significance of any such changes.

Factors Relevant to Evaluating the Level of the Threats

14. For the evaluation of the level of the threats created when fees for an audit or other engagement are paid by the audit client, the Task Force proposes various factors relevant to the evaluation (see paragraph 410.4 A1). Importantly, as noted above, the Task Force believes that compliance with professional standards assists in mitigating the level of the threats.
15. To acknowledge this fact, the Task Force recommends that Section 120⁶ recognize (through a consequential amendment) that conditions, policies and procedures such as the existence of a quality

⁴ In paragraphs R410.22 (a) and R410.25 (a)

⁵ Audits carried out in accordance with ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁶ Section 120, *The Conceptual Framework*

management system designed and implemented by a firm in accordance with [proposed] ISQM 1⁷ can be a factor in evaluating the level of threats created by fees paid by an audit client. As the existence of such a quality management system can be a factor covering a wider spectrum of issues than just fee-related matters, the Task Force agreed that it would be better placed in Section 120 than in Section 410 (see paragraph 120.12 A3).

16. Additionally, the Task Force proposes that Section 120 also recognize, as a further example of conditions, policies and procedures, the existence of an independent committee to advise on governance matters which might impact the firm's independence, such as the remuneration of audit engagement partners in a multi-disciplinary firm that provides both audit services and services other than audit. The Task Force believes that this addition is relevant to this project as it addresses the provision of both audit services and services other than audit to an audit client, and therefore implicitly the fees paid by the client. (See paragraph 120.12 A3.)
17. Taking into account the various fee-related factors proposed in Section 410 as well as the existence of conditions, policies and procedures as noted above, the Task Force believes that firms might often conclude that the threats to independence created by the fees paid by the audit client are at an acceptable level (see paragraph 410.4 A2).
18. However, in certain circumstances (such as when the firm provides services other than audit to an audit client, when there are overdue fees from an audit client, and when there is fee dependency on the audit client), the level of the self-interest threat to independence could increase and an intimidation threat might also be created. The rest of Section 410 addresses those specific matters, including providing guidance on how to evaluate and address the threats.

Matter for the IESBA consideration

1. Do IESBA members agree with the proposed changes to Sections 410 and 120 as explained above?

B. Level of Audit Fees

19. Determining the level of fees to propose to an audit client is a business decision of the firm taking into account the facts and circumstances relevant to the specific engagement, including the requirements of technical and professional standards. This applies not only to the level of the audit fee but also to fees for services other than audit proposed to the audit client.
20. Consequently, the Task Force does not believe that it would be proper for the Code to specify what should be an appropriate level of fees. The Task Force does, however, believe that extremely low or extremely high fees can increase the level of the self-interest threat and might create an intimidation threat to independence. Aside from the general factors proposed in paragraph 410.4 A1, the Task Force proposes additional factors relevant to the evaluation of the threats created by the level of the audit fees, as well as an example of an action that might be a safeguard (see paragraphs 410.5 A2 and 410.5 A3).
21. The Task Force also proposes a consequential amendment to Section 320⁸ regarding considerations

⁷ Proposed 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*

⁸ Section 320, *Professional Appointments*

relating to engagement acceptance. Specifically, the level of fees, in terms of the extent to which it has regard to the resources required for the engagement, can be a factor relevant to evaluating the self-interest threat to compliance with the principle of professional competence and due care. (See paragraph 320.3 A4.)

Impact of Other Services Provided to an Audit Client

22. When entering discussions or negotiations on audit fees and total fees for providing certain services to an audit client, there are many factors that could influence the total fees charged for that client. Responsive to Board members' comments that it is not within the remit of the Code to include factors for determining such fees, the Task Force has deleted the list of such factors.
23. However, the Task Force is of the view that it is important to emphasize that the provision of other services to the audit client is not an appropriate factor in determining the level of the audit fee. Accordingly, the Task Force proposes a requirement that when a firm provides other services, the provision of those services not influence the level of the audit fee (see paragraph R410.7). In other words, the fee for an audit engagement should stand alone and should not be considered as part of total fees for a spectrum of services which could result in changes to the level of the audit fee.
24. Having regard to the fact that cost synergies can arise, the Task Force proposes to make clear that this requirement is not intended to prohibit proper cost savings that can be achieved as a result of the firm providing services other than audit to the audit client (see paragraph 410.7 A2).

C. Other Matters

Contingent Fees and Overdue Fees

25. The proposed changes to the prohibition on contingent fees to an audit client only intend to emphasize the approach that Section 410 should cover audit fees and all other fees for services other than audit. Recognizing the applicable 'building blocks' approach of the Code, the Task Force reconsidered its previous suggestion that this subheading should include separate provisions for assurance and non-assurance engagements. However, the Task Force believes that the proposed restructured new wording of the prohibition better reflects the approach of Section 410 without any substantial changes.
26. Similarly, the Task Force does not propose any substantive amendments to the current requirements and application material regarding overdue fees. However, the Task Force did note that whereas extant paragraph 410.7 A1 might be regarded as relating only to the prior year audit fee in that it states "if a significant part of fees is not paid before the audit report for the following year is issued", extant paragraphs 410.7 A2 and R410.8 refer just to "overdue fees". The Task Force therefore believes it appropriate to clarify that the self-interest threat might be increased if any fees payable by the audit client for the audit or services other than audit are overdue (see paragraph 410.11 A1).

III. Total Fees from an Audit Client

D. Proportion of Fees Paid by the Audit Client

27. Consistent with proposals discussed at previous Board meetings, the Task Force does not believe that bright lines should be drawn regarding the relative proportions of audit fees and fees for other services. For the reasons articulated in the proposed paragraphs, the Task Force believes that a large proportion of fees for other services will increase the self-interest threat and might create an

intimidation threat. The level of such threats will clearly therefore need to be evaluated and the Task Force has suggested possible factors to be considered. (See paragraphs 410.10 A1 and 410.10 A2.)

28. As part of possible actions to mitigate such threats in relation to public interest entities (PIEs), the Task Force has suggested various items of disclosure both to TCWG and publicly as noted in section F of this paper below. In considering those disclosure items, the Task Force was mindful of the practicalities of obtaining and disclosing such information. In particular, for confidentiality reasons it would be difficult to disclose information in relation to entities that are not controlled by the audit client. Similarly, in order to provide a consistent reference point – particularly for public disclosure – the Task Force felt it was best to use the fees for other services charged during the period covered by the financial statements. The Task Force does not believe, however, that either of these practical issues affects the conceptual framework requirements to identify and evaluate threats. In the Task Force's view therefore, the firm should evaluate threats posed by the proportion of fees for other services delivered to related entities *as specified in paragraph R400.20⁹ of the extant Code and whenever charged* to the extent they affect the level of self-interest or intimidation threat throughout the period during which independence is required.

Matter for the IESBA consideration

2. IESBA members are asked whether they support the Task Force's proposals above regarding the proportion of fees paid by an audit client.

E. Fee Dependency

Fee Dependency in Case of Audit Clients that are PIEs

29. As was presented during the September Board meeting, the Task Force does not propose that the Code include a threshold for PIEs other than the current 15% threshold for the evaluation of the threats created by the total fees earned from an audit client as a proportion of the firm's total fee income. If each year for two consecutive years, the total fees from an audit client and its related entities represent, or are likely to represent, more than 15% of the total fees received by the firm, the Task Force proposes to require the firm to determine whether a pre-issuance review could be a safeguard to address the threat, and if so, apply it (see paragraph R410.17). In line with the requirement in the extant Code, if the firm concludes that even a pre-issuance review is not capable of reducing the threats to an acceptable level, the courses of action available to the firm are to reduce the level of the total fees from that client or end the engagement, in accordance with the conceptual framework.
30. The Task Force proposes that the pre-issuance review be an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements. The Task Force will highlight in the Explanatory Memorandum to the Exposure Draft (ED) that the definition of the term "engagement quality control review" in the extant Code will need to be updated based on the proposed definition in ISQM 2 regarding the revised term "engagement

⁹ In paragraph R400.20, the Code specifies that an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in Part 4A include related entities over which the client has direct or indirect control. The Code also requires that when the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team include that related entity when identifying, evaluating and addressing threats to independence.

quality review.”¹⁰

31. During the [IESBA discussion in March 2019](#), the Task Force had already proposed withdrawing the post-issuance review performed by a professional accountant or the professional body as a preexisting safeguard in the extant Code.
32. The extant Code also includes a pre-issuance review performed by the professional body as an alternative. The Task Force considered that whilst that safeguard might be effective, a review performed by a professional body prior to the audit opinion being issued is unlikely to be practical given timing issues and the liability risk that the professional body would likely assume in such circumstances. Accordingly, the Task Force proposes that this safeguard also be withdrawn.

Joint Audits

33. In line with the proposed changes above, the Task Force is of the view that the pre-issuance review as a safeguard is not necessary if the audit is carried out by two or more firms, provided that each firm performs sufficient work to take full individual responsibility for the audit opinion. Taking into account comments from Board members regarding the differences in the understanding of the term ‘joint audit’ from jurisdiction to jurisdiction, the Task Force does not aim to define or introduce the term ‘joint audit’ in the Code. The Task Force proposes to only recognize those cases where participation of two or more firms in performing the audit of the financial statements could be an exception to the mandatory pre-issuance review if certain criteria are met, whether that arrangement is defined as a joint audit or not in particular jurisdictions. (See paragraphs R410.16 and R410.18.)

Exit Clause

34. As was proposed at the IESBA meeting in September, the Task Force is of the view that after a certain period of time, there are no safeguards that would be capable of reducing the level of the threats created by fee dependency on a PIE audit client to an acceptable level. The Task Force notes the recently adopted rules in Europe and proposes that the Code also adopt 5 years as a maximum.¹¹ Therefore, the Task Force’s proposal, which the Board generally supported, is that the Code should require the firm to end the audit engagement if the fee dependency from the client continues for more than 5 consecutive years (see paragraph R410.19).
35. The Task Force is aware that in some jurisdictions, laws or regulations may prohibit firms from ending the audit engagement after such time. The Task Force believes that the Code already recognizes such a circumstance in the overarching requirement in paragraph R100.3.¹²
36. Regarding this proposal, during the [June Board meeting](#) some IESBA members raised that there could be exceptional circumstances when it is in the public interest that the firm not end the audit engagement. Recognizing those situations, in September the Task Force proposed that if there is a compelling reason to meet the public interest, a firm could continue as the auditor provided that the professional body concurs that having the firm continue would be in the public interest. Based on

¹⁰ Proposed ISQM 2, *Engagement Quality Reviews*

¹¹ Regulation nr. 537/2014 of The European Parliament and European Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, Article 4

¹² Paragraph R100.3 sets out the following: “A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.”

comments from IESBA members and feedback from outreach to stakeholders, the Task Force agreed to expand the conditions to also include, as an alternative to concurrence by a professional body, concurrence by an independent regulatory body. (See paragraph R410.20.)

Fee Dependency in Case of Audit Clients that are non-PIEs

37. The Task Force has proposed a similar model for firms addressing the threats for non-PIE audit clients as for the Code's existing fee-dependency model for PIE audit clients but allowing greater latitude in the thresholds and safeguards adopted.¹³ The Task Force considered this would be a reasonable approach bearing in mind the nature of the threats, the special considerations relating to small and medium practices, the public interest, and the pending IESBA project on the definition of a PIE.¹⁴
38. The fact-finding activities leading up to the Fees project provided no empirical evidence regarding what the appropriate threshold should be. Therefore, taking into account comments from Board members and stakeholders, the Task Force decided to retain the proposal for non-PIEs that when total fees from an audit client exceed 30% for each of 5 consecutive years, the firm shall determine whether a pre- or post-issuance review might be a safeguard to address the threats created, and if so apply it. However, on balance no exit provisions are proposed for non-PIEs. (See paragraph R410.14.)
39. For the information of the Board, the other main option considered by the Task Force was to mirror for non-PIEs the 15% fee dependency threshold that currently applies to PIEs, for each of 4 consecutive years before considering pre- and post-issuance reviews as mentioned above. The Task Force proposes that the explanatory memorandum to the ED indicate that the thresholds adopted be reviewed after a period of implementation experience to assess whether any adjustment to the thresholds might be beneficial given thresholds have not previously applied to fee dependency involving audit clients that are non-PIEs. Such assessment would also be able to take into account the outcome of the PIE project.
40. Reflecting on some Board members' comments, the Task Force notes that inserting a threshold is not likely to change significantly the expectations as set out in the Code, since based on the application of the conceptual framework and considering the factors set out in Section 410, firms would most likely be required to take certain actions at that level of fee dependency. The aim of the proposal, however, is to create a comprehensive and consistent approach regarding the expectations in the case of non-PIE audit clients as well, bearing in mind that the conceptual framework and the general provisions applicable to all audit clients would still apply even in those cases when the specific threshold is not exceeded.
41. Based on the current PIE model, the Task Force proposes that firms consider whether a pre-issuance or a post-issuance review performed by a professional accountant, who is not a member of the firm,¹⁵

¹³ The Task Force considered whether to include all related entities within the definition of non-PIE audit clients. However, concerns were raised that gathering relevant information in relation of fees, particularly in the case of sister entities, might be difficult. For that reason, the Task Force agreed to follow the approach taken previously by the IESBA in paragraph R400.20.

¹⁴ The project proposal addressing the definition of a PIE and listed entity will be discussed by the IESBA during its December 2019 meeting. This project is referred to in the document as the PIE project.

¹⁵ In line with the Structure drafting guidelines, "firm" does not cover network firms; therefore, it is permitted that the professional accountant who performs the review be a member of a network firm.

would be an appropriate safeguard to address threats. On balance, having regard to the need for proportionality, in the case of non-PIE audit clients the Task Force does not propose that the pre-issuance review should be equivalent to an engagement quality review.

42. The Task Force also considered whether to require communication with TCWG. The Task Force, however, was conscious of comments from Board members during the March 2019 IESBA meeting as well as from some CAG Representatives during the March 2019 CAG meeting that communication with TCWG would generally not be an effective safeguard in the case of non-PIEs, given the less formal and structured governance arrangements that commonly apply in that context.

Matter for the IESBA consideration

3. IESBA members are asked whether they support the Task Force's proposals above regarding fee dependency.

F. Transparency of Information Regarding Fees for Audit Clients that are PIEs

43. In the case of PIE audit clients, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of TCWG, investors and other stakeholders, the Task Force proposes transparency requirements regarding the level of audit fees, proportion of fees paid by the audit client for audit and services other than audit, and the fact of fee dependency (if applicable) to TCWG and to stakeholders more generally.

Communication About Fee-related Information with Those Charged with Governance

44. International Standard on Auditing (ISA) 260 (Revised) requires that in the case of listed entities, auditors communicate with TCWG regarding “the 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 allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor”.¹⁶
45. The main purpose of the Task Force's proposal with respect to communication with TCWG is to provide a basis for a meaningful discussion with TCWG about fee-related information of a PIE audit client to assist them in assessing the firm's independence. In that regard, the Task Force's proposals intend to provide an appropriate background to the fees paid by the audit client by not focusing the communication only on the amount of the fees but also requiring the firm to communicate its assessment of the level of the threats to independence created by the payment of such fees. (See paragraphs R410.22 to R410.24.)
46. Regarding the communication about the level of the audit fee, the Task Force proposes that Section 410 include examples of factors related to the determination of the audit fee that the firm may consider discussing with TCWG as part of such communication (see paragraph 410.22 A1). Those factors are not so much about the threats created by the level of the audit fee, but rather represent information that is important for context. The Task Force expects that in most cases, the firm would be able to inform TCWG that it is satisfied about the fees charged. If not, it is proposed that the firm would engage in an appropriate dialogue with TCWG on actions taken or proposed.

¹⁶ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 17(i)(a)

Coordination with IAASB Regarding the Scope of the Requirement

47. One of the issues identified for coordination within the JWG was that the pre-existing requirement in ISA 260 on communication of independence matters is applicable only for listed entities whereas the Task Force's proposal covers PIEs. The JWG discussed this issue in August 2019¹⁷ and identified the following four options to address this difference in scope:
- (i) Align the scope of the requirements in ISA 260 and the Code;
 - (ii) Do nothing, i.e., allow implementation to settle in the market;
 - (iii) Withdraw the requirement in ISA 260 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
 - (iv) Withdraw only the part of the requirement in ISA 260 that concerns communication of fee information with TCWG.
48. The IAASB representatives of the JWG reported that during the Fees session at the September 2019 IAASB meeting, from the 4 options above, some IAASB members supported alignment of the scope of the requirements in ISA 260 (Revised) with the Code. However, a few IAASB members were of the view that the IAASB should consider broadening the scope of the requirement in ISA 260 (Revised) to cover all entities. It was also noted that many IAASB members had concerns about withdrawing the requirement regarding communication of independence matters from ISA 260 (Revised), since there is a link between that requirement in ISA 260 (Revised) and the reporting responsibilities in ISA 700 (Revised) regarding independence. In addition, some IAASB members had noted that not all jurisdictions adopt both the ISAs and the Code together.
49. In the light of the proposed accelerated timeline for the PIE project, IAASB representatives were of the view that attempting the alignment or changing the scope of the requirement to all entities would not be feasible options in the short term. They suggested that once all the relevant IESBA projects, i.e. the non-assurance services (NAS), Fees and PIE projects, are finalized, the IAASB can consider whether to add any application material to ISA 260 (Revised) or broadening its scope. The JWG agreed that IAASB will monitor the progress of the IESBA projects in the meantime.

Public Disclosure of Fee-related Information

Possible Ways to Effect Public Disclosure

50. During the September IESBA meeting, the Task Force proposed that the Code include a flexible approach regarding application of the principles to achieve transparency to the public, including leaving it with the firms to decide on the suitable forum and platform for such disclosure. This approach was generally supported both by the IESBA and the IAASB during their September 2019 Fees sessions.
51. The Task Force recognizes that several jurisdictions already have laws and regulations regarding public disclosure of fee-related information. Also, in certain circumstances, laws and regulations might prohibit such disclosure due to confidentiality reasons. In those instances, consistent with paragraph R100.3, laws and regulations would prevail. Since it is not always possible to determine whether laws and regulations differ or go beyond the provisions of the Code regarding the extent of

¹⁷ See also summary of the coordination in [Agenda Item 6, Fees Cover note](#), of the September 2019 IESBA meeting.

the information to be disclosed, to avoid duplication of obligations in relation to public disclosure, the Task Force proposes that Section 410 recognize compliance with such laws and regulations as compliance with the Code if those national requirements substantively satisfy the requirement in the Code. (See paragraph R410.25 and 410.25 A2.)

52. If there is no disclosure requirement in laws or regulations, 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. Otherwise, the Task Force is proposing some examples of possible locations that would meet the disclosure requirement in 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. (See paragraphs 410.25 A3 and 410.25 A4.)
53. The Task Force is also proposing that the Code explain that the disclosure would be regarded as being appropriately accessible – whether made by the client or by the firm – 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 (see paragraph 410.25 A6).

Coordination with IAASB Regarding Disclosure in the Audit Report

54. If 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. Based on the IAASB's discussion during its September 2019 meeting, IAASB representatives of the JWG advised that the appropriate location within the auditor's report would be a separate section that addresses the auditor's other reporting responsibilities in accordance with ISA 700 (Revised).¹⁸
55. The IAASB representatives explained that the IAASB's concern is to ensure that the auditor's responsibilities under the ISAs are not conflated with any other reporting responsibilities the auditor may have, including in relation to reporting in compliance with ethical requirements. 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,"¹⁹ i.e., responsibilities beyond those required under the ISAs.
56. However, the IAASB representatives noted that there may be a concern around whether the intention of ISA 700 (Revised) is to only accommodate other reporting responsibilities in terms of laws and regulations and whether it also contemplated an ethical requirement. The JWG was informed that the IAASB will in due course discuss how best to reflect this in ISA 700 (Revised) after the IESBA's proposals on the Fees project are finalized.

Determination of Fee-related Information to Be Disclosed

57. Regarding the information to be disclosed, the Task Force proposes application material to explain that the fees disclosed usually reflect the fees paid or estimated to be paid for the services based on

¹⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁹ ISA 700 (Revised), paragraphs 43–45 address the auditor's other reporting responsibilities.

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 actual or the estimated cost of work carried out by any component auditor at the request of the group engagement partner as set out in ISA 600.²⁰ (See paragraph 410.25 A1.)

58. The Task Force is of the view that in the case of a group audit, at a principle level the Code should aim to provide stakeholders with information about the cost of the group audit, including fees for all component auditors. This information would enable stakeholders to make judgments about the independence of all those involved in the group audit and not only of those at the firm or network level.
59. Furthermore, the Task Force notes that ISA 260 (Revised) follows the same approach when requiring transparency regarding the total fees charged during the period covered by the financial statements for audit provided by the firm and network firms to the entity and components controlled by the entity.²¹

Coordination with IAASB Regarding Disclosure of Audit Fee-related information in a Group Audit Context

60. During the September 2019 IESBA meeting, Board members raised concerns regarding the practicality for the group engagement partner to obtain this fee-related information from component auditors. To respond to those concerns, the Task Force asked for feedback from the IAASB's ISA 600 Task Force to the Fees Task Force's proposal. The ISA 600 Task Force's main feedback, provided as part of the coordination within the JWG, is as follows:
 - There are myriad ways in which fee arrangements are structured. In some situations, group management has more leverage in choosing component auditors; in other cases, the component auditor is engaged by the component management. In addition, there may be restrictions that hamper open sharing of the fee information (e.g., due to law and regulation).
 - Another example of a fee arrangement could be when the component management engages the component auditor for statutory audit and other related work (including related incremental work performed solely to support the group audit) and only a single fee is agreed. In that case, it may not be practicable for the fee to be split between the audit for group purposes and the other work. Also, fees could be negotiated at a subgroup level, including more component auditors, and be relevant also to audit and other work. Again, this may raise questions about whether the amounts can be appropriately identified or allocated to the firm issuing the group opinion. They suggested the need for additional guidance to address these and other instances when the information is not available, or there are other difficulties in determining the appropriate fee amount.
 - There is a question as to how public disclosure would be handled in the case of a joint audit.
 - It would be necessary to address the scenario where the fee information cannot be obtained from component auditors for any reason.
 - Consideration could be given to raising the matter of disclosure of audit fee-related information in a group audit context in the explanatory memorandum to the ED and asking for stakeholders'

²⁰ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

²¹ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 17(i)(a)

views about the practicalities in obtaining such fees.

61. The IAASB JWG representatives noted that the project to revise ISA 600 would provide an opportunity for ongoing dialogue with the ISA 600 Task Force.
62. The Task Force noted that the sole objective of the proposal is to achieve transparency for the benefit of stakeholders in facilitating their judgments and assessments about independence. It is not the Task Force's intent, nor would it be feasible in a principles-based Code, to address every possible fee arrangement that could be agreed in a group audit context or to set out the different ways in which the information could be obtained and compiled. Equally, it is not an objective of the disclosure proposal to achieve comparability of fee information across different groups. Accordingly, the Task Force believes that it should be left to firms to determine how best to fulfill the transparency objective and that the Code should not be prescriptive in that regard.
63. However, recognizing the practical circumstance raised by the ISA 600 Task Force where the firm is simply not able to obtain the fee information from a component auditor, the Task Force proposes that Section 410 include an exception to that effect. Nevertheless, in such an instance, the firm would be still required to be satisfied that the disclosure includes reference to this fact and the related circumstances. (See paragraph R410.26.)
64. The Task Force also agreed with the ISA 600 Task Force's suggestion that stakeholders be asked for specific feedback on the practicality of the proposal in the explanatory memorandum to the ED.

Matter for the IESBA consideration

4. IESBA members are asked whether they agree with the Task Force's proposals above regarding transparency of fee-related information.

IV. Consequential Amendments to Part 4B of the Code

65. As set out in the [Project Proposal](#), the Task Force considered whether the changes proposed to Section 410 have any implications for assurance engagements other than audit and review engagements (referred to hereinafter as assurance engagements). The Task Force was mindful of the specific considerations of those engagements, particularly that parties involved in an assurance engagement might differ and therefore the application of the independence provisions in Part 4B might vary.²²
66. The Task Force is of the view that, for reasons mentioned in paragraph 6 above, there is an inherent self-interest threat where fees for the assurance engagement are negotiated with and paid by the assurance client. The Task Force recognizes that by the nature of assurance engagements addressed in Part 4B, firms more likely will reach the conclusion that such threats are at an acceptable level. Nevertheless, the Task Force believes that the Code should articulate the existence of such threats even in the case of such assurance engagements. (See paragraph 905.3 A1.)
67. On balance, the Task Force believes that the threats created by fees for other services than the assurance engagement are not generally such that they require formal evaluation other than where (as in the extant Code) the total fees derived from the assurance client are significant. However, the

²² Paragraph 900.11 A2 in the *Revisions to Part 4B of the Code to Reflect Terms and Conditions Used in International Standard on Assurance Engagements 3000 (Revised)*, approved by IESBA in September 2019

Task Force believes it is appropriate for the Code to make clear that this is the case even if the assurance client is not in fact the one paying for the assurance engagement (see paragraph 905.11 A2). The Task Force also considered whether threats might be created if significant fees are derived from a party, other than the assurance client, who paid for the assurance engagement. The Task Force concluded that this is not likely to give rise to significant risks in practice.

68. The Task Force believes it is appropriate to make conforming changes to the application material regarding overdue fees to make it clear that it relates to any fees that might be overdue from the assurance client (see paragraph 905.9 A1). The Task Force also believes that threats might arise if any fees payable by the same party as that responsible for paying for the assurance engagement are overdue and has included application material to cover this situation (see paragraph 905.9 A2).
69. The Task Force does not consider it necessary to include in Part 4B the requirements and application material in Part 4A that are relevant only for PIE clients.

Matter for the IESBA consideration

5. IESBA members are asked whether they agree with the Task Force's proposals regarding the consequential amendments to Part 4B arising from the proposed changes to Section 410 in Part 4A.

V. Issues Regarding Anti-trust Laws

70. Some Board members and CAG Representatives have raised that the Task Force's proposals pertaining to fee-related matters in the Code could raise potential issues with regard to anti-trust laws and regulations in the US. They suggested that the Task Force explore whether those proposals could be operable within the US legal framework. To obtain more information on the relevant US laws and regulations, the Task Force Chair and the IESBA staff had a conference call in October 2019 with the legal counsel and other representatives of the American Institute of Certified Public Accountants (AICPA).
71. The legal view from the AICPA's perspective is that anti-trust laws in the US would not allow professional standards, as instruments promulgated by a private body, to impact or change competitive pricing practices, *even if* the provisions were considered to promote the public interest. It was noted that as a matter of fact, the provisions need not relate to the pricing activities directly to be prohibited, as long as they influence or otherwise affect competitive behavior in one way or another. Exemptions can be made only by regulators; alternatively, a specific rule could be issued by the appropriate regulator in relation to the pricing matter.
72. With regard to the Task Force's current proposals, the AICPA legal view is that without hard empirical evidence, it is difficult to demonstrate that regulation of conduct through the Code in relation to fees charged would be pro-competition. On the other hand, it was argued that if there is not clarity in the minds of professional accountants on how to meet the requirements of the Code, there would be a risk that they would default to the most conservative pricing behavior, thereby harming clients. Also, there was a view that some of the Task Force's proposals could result in potential additional costs to the client which might be problematic from an anti-trust point of view in the US.
73. In the light of the above, the Task Force accepts that some of its proposals might not be capable of incorporation into the AICPA Code of Professional Conduct – as indeed is the case with some of the fee-related provisions in the extant Code. Nevertheless, in the interest of exploring options for the

way forward with respect to the US context, the Task Force has approached representatives of the National Association of State Boards of Accountancy (NASBA) to initiate discussion on the issues. The Task Force understands that as public bodies, the State Boards are less restricted in their ability to set rules in the public interest than the AICPA. Accordingly, the Task Force will discuss the approach the State Boards might take to the fee-related proposals, including seeking their views on the feasibility and appropriateness of including the provisions in their rules. The Task Force will report the outcome of its discussions with NASBA to the Board in due course.