

Meeting: IESBA
Meeting Location: Nashville, Tennessee
Meeting Date: June 17-19, 2019

Agenda Item 3

Fees

Objective of Agenda Item

- To:
 - Consider the Task Force's proposals to address the various fee-related issues outlined in the [Fees Project Proposal](#); and
 - Consider the "first read" draft of Task Force's proposed revisions to the fee-related provisions in the Code.

The Task Force welcomes comments on its proposals in advance of the June 2019 IESBA meeting. Please email SzilviaSramko@ethicsboard.org.

Task Force

- The Task Force comprises:
 - Ian McPhee, Chair, IESBA Member
 - Michael Ashley, IESBA Member
 - Caroline Lee, IESBA Member
 - Alden Leung, IESBA Member

Background

- Pursuant to the [June 2018 Fees Final Report](#), the IESBA approved a [Fees Project Proposal](#) in September 2018. The Fees project is responsive to concerns from regulatory stakeholders and the Public Interest Oversight Board (PIOB) and is a pre-commitment in the IESBA Strategy Work Plan 2019-2023 (SWP).
- The objective of the fees project is to review the provisions in the [International Code of Ethics for Professional Accountants \(including the International Independence Standards\)](#) (the "Code") pertaining to fee-related matters. 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 (PAIB) in approving the level of audit fees;

- A review of the provisions to fee dependency at a firm, office and partner level for all audit clients, including considering the introduction of a specific threshold for audit clients which are not public interest entities (PIE); and
 - A review of the safeguards in the Code pertaining to the scope of this project.¹
5. At the March 2019 IESBA meeting the Task Force presented its proposals and, as a reference, the preliminary proposed changes to the Code to demonstrate the impact of the proposals at the March IESBA meeting.

Activities since last IESBA Discussion

6. Since the March 2019 meeting, the Task Force has met in person and twice via teleconference to develop their proposals set out in **Agenda Item 3-A**.
7. In addition to the input given by the Board, while developing its proposals, the Task Force considered the inputs received from certain key stakeholders, including:
- The International Forum of Independent Audit Regulators (IFIAR),
 - The Forum of Firms,
 - The IESBA National Standard Setter Liaison Group (NSS); and
 - Representatives of the Japanese Institute of Certified Public Accountants.
8. The Chair of the Task Force will brief the Board on the significant comments received and how the Task Force incorporated them.
9. The Chair of the Task Force and the NAS Task Force will present the agenda materials for the June 2019 IESBA to the SMPC on June 12, 2019 via teleconference. Participating members will have the opportunity to discuss their comments with the Task Force Chair and provide input.
10. The key issues discussed, and the comments raised will be presented to the Board during the June 2019 meeting.

Coordination with the NAS Task Force

11. The Task Force has coordinated its efforts with the NAS Task Force to develop the proposed text relating to enhanced communication and disclosure about fees and fee ratios for services other than audit, including NAS fees (see paragraphs 410.15 A1 to 410.19 A1 of **Agenda Item 3-A**).
12. Therefore, it is anticipated that the timing for the finalization of the Task Force's proposals will coincide with those of the NAS Task Force. In addition, proposals that are intended to address similar or the same issues (e.g. enhanced auditor communication with TCWG and transparency) will be dealt with in a coordinated manner. Joint and separate stakeholder communications will be tailored as

¹ At its March 2019 meeting, the Board agreed to the Task Force's recommendation that no further changes would be needed to the fee-related safeguards in the Code. It was agreed that the proposals that the Task Force is exploring to:

- Strengthen responsibilities with respect to the level of fees; and
- Address fee dependency issues

would be sufficient to respond the underlying concerns of the stakeholders who suggested that the fee-related safeguards in the Code should be enhanced.

appropriate in order to focus and solicit stakeholder input about all NAS and fee-related issues.

Coordination with IAASB

13. At the March 2019 meeting, the Task Force signaled the need to coordinate with the IAASB on a number of overlapping issues (for example, its proposal relating to the public disclosure of fee-related information in the audit report).
14. As a follow up to several internal coordination discussions between IESBA and the IESBA staff and leadership, a Joint Working Group comprising of representatives of the IAASB and IESBA (including the Task Force Chair) has been established to facilitate the timely coordination of topics of mutual interest to the two boards arising from the Fees Project.
15. This Joint Working Group met via teleconference on June 3, 2019. The IAASB representatives provided their preliminary views and reactions to the Task Force's proposals, noting that their reactions represented their individual views and did not represent the official IAASB's view. The Task Force Chair will highlight the significant comments made during the June 2019 meeting.
16. The IAASB representatives on the Working Group anticipated that further engagement will be needed at the IAASB level about some aspects of the Task Force's proposals (e.g., the proposals to disclose certain information relating to fees in the auditor's report) and that the earliest opportunity for this engagement would be in September 2019.

Matters for Board Consideration in June 2019

Re-Ordering of Material in Section 410

17. Having regard to the drafting conventions for the revised and restructured Code, the Task Force is proposing that the material in extant Section 410 should be reordered to enhance clarity and the flow of the document. The Task Force proposes that the material in Section 410 should be re-ordered as follows:
 - I. Nature and Level of Audit Fees
 - II. Nature and Level of Fees for Services Other than Audit²
 - III. Total Fees - Relative Size
 - IV. Total Fees – Overdue Fees

Key Areas of Focus

18. The notes in the gray boxes in **Agenda Item 3-A** summarize the Task Force's rationale for its proposed revisions which incorporate the Board's input from March.
19. The Board will be asked to consider the proposed text set out in **Agenda Item 3-A** and provide its reactions. Among other matters, the Task Force is seeking input on its proposed revisions to:
 - Strengthen the provisions in the Code with respect to the firm's and engagement partner's responsibility to perform an audit in accordance with professional standards, irrespective of the level of audit fees quoted.

² The extant provisions related to Contingent Fees which was the last topic in Section 410 have been moved up.

- Enhance the communications about fee-related matters between auditors and TCWG as a response to stakeholder concerns about the actual and perceived impact that the level of fees quoted has on auditor independence for audit clients that are PIEs. As part of this discussion, the Task Force seeks feedback on the aspects of its proposals that explain the nature, timing and extent of its provisions that will require auditor communications with TCWG about:
 - The level of audit fees.
 - The level of fees for services other than audit, including NAS.
 - Fee ratios (e.g., audit/ services other than audit).
- Respond to calls for enhanced transparency about fees – for the audit and services other than audit, including NAS (e.g. via public disclosure) for audit clients that are PIEs. For example, the Task Force’s welcomes views about:
 - Which fees should be disclosed (i.e., the level of fees charged).
 - The contextual information that might form part of this fee-related disclosure (i.e., the proposals include examples of factors to guide firms determine the nature and extent of additional information that might be relevant for inclusion as part of the fee-related disclosure).
 - How the fee-related matters might be publicly disclosed (i.e., in the auditor’s report in circumstances when this information is not disclosed by the audited entity).
- Address fee-dependency issues at the firm level with respect to audit clients that are PIEs. For example, the Task Force welcomes views about:
 - Whether firms should be required to disclose information about fee-dependency.
 - Whether the Board agrees with its proposed “exist clause” which would require firms to cease to be the auditor after 5 years, if the firm is not able to address the fee dependency from an audit client that is a PIE (i.e., when total fees from an audit client “substantially” exceed 15 percent of the total fees for the firm).

Other Matters that Warrant Board Attention

20. Appendix 1 is a summary of some comments that have been raised in the context of the Task Force’s and the NAS deliberations or in finalizing the agenda material for this meeting. It was determined that these comments should be brought to the Board’s attention.

Conforming and Consequential Amendments

21. The Task Force’s work resulted in several conforming and consequential amendments, which are set out in **Agenda Item 3-A**.
22. The Task Force anticipates the need for additional consequential amendments to Section 905³ in Part 4B of the Code (e.g., to align terminology of “fees quoted and charged”). The Task Force plans to consider the potential changes that will be needed to Section 905 after the June 2019 meeting. However, the Task Force welcomes the Board’s preliminary views about the nature of conforming

³ Part 4B – *Independence for Assurance Engagements Other than audit and Review Engagements*, Section 905 – Fees

changes that might be needed to maintain the existing alignment between Part 4A and Part 4B.

Next Steps

23. The Summary Illustrative IESBA Work Plan in the SWP anticipates the IESBA's approval of the Fees Exposure Draft at the same time as the NAS Exposure Draft in 2019. The final pronouncement is anticipated by 2021. The Task Force is currently focussed on the timetable previously flagged by the Board for approval (i.e. September 2019) but appreciates issues such as the need for liaison with the IAASB, NAS Task Force or other matters agreed at the June 2019 meeting may have a bearing on the approval date.

Materials Presented

For Discussion

- Agenda Item 3-A Fees – Proposed Revisions to the Code Arising from the Fees Project (mark-up from extant)

For Reference

- Agenda Item 3-B Fees – Proposed Revisions to the Code Arising from the Fees Project (clean)

Action Requested

24. IESBA members are asked to consider and provide input to the proposed revisions to the Code set out in **Agenda Item 3-A**.

Other Matters that Warrant Board Attention

Comment	Task Force Response
<p>1. Some IESBA members suggested that the Task Force’s proposals should include specific guidance to assist firms operationalize them in a group audit context (e.g. required auditor communications with TCWG).</p> <p>This comment is also relevant to the NAS project.</p>	<p>The Task Force’s proposals include a general reference to IAASB’s ISA 600, <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>.</p> <p>The Task Force anticipates that further work will be needed to expand on this reference in this area, but notes that:</p> <ul style="list-style-type: none"> • There are broader issues (beyond the scope of the Fees and NAS projects) that warrant further consideration with respect to applying the provisions in the Code in a group audit context. • The IAASB’s ISA 600 includes provisions that apply in a group audit context, including with respect to compliance with ethics and independence and communication with TCWG. • The IAASB’s is currently undertaking a project to revise ISA 600. It is anticipated that the IAASB might soon approach the IESBA to coordinate topics of mutual interest with respect to the Group Audit as part of its IAASB-IESBA coordination initiatives. <p>The Task Force will revisit this comment after the June 2019 Board discussion.</p>
<p>2. The Task Force’s proposed requirement relating to auditor communication to TCWG applies to audit clients that are PIEs.</p> <p>Questions have been raised about whether those provisions should instead apply to listed entities (i.e., the existing approach in the IAASB’s auditor communication requirements about independence matters in ISA 260 (Revised)).</p> <p>This comment is also relevant to the NAS project.</p>	<p>In the context of its Safeguards project, the IESBA had extensive deliberations, including with its Consultative Advisory Group about whether auditor communications matters should apply to listed audit clients versus audit clients that are PIEs. In the context of disclosing matters about Fees, it was determined that requirements should apply to PIEs.</p> <p>It is anticipated that this issue will be included as part of the Task Force’s ongoing liaison with the Joint Working Group.</p>