

Meeting: IESBA
Meeting Location: New York
Meeting Date: September 16-19, 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
 - The "second read" draft of the 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 September 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 [Project Proposal](#) in September 2018. The project is a pre-commitment in the IESBA's Strategy and Work Plan 2019-2023 (SWP) and is responsive to concerns from regulatory stakeholders and the Public Interest Oversight Board (PIOB).
- The objective of the 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 (PAIBs) in approving the level of audit fees;

- A review of the provisions pertaining 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 (PIEs); and
- A review of the safeguards in the Code pertaining to the scope of this project.

Activities since Last IESBA Discussion

5. The IFAC Small and Medium Practices (SMP) Committee met on June 27, 2019 in New York. The IESBA's SMP liaison member, Mr. Mintzer, presented the Task Force's proposals submitted at the June IESBA meeting and the Board's feedback. The Chair of the Task Force will brief the Board on the significant comments received from the SMP Committee and how the Task Force has considered them.
6. The Task Force met in person in early August. At its meeting, the Task Force discussed the input provided by Board members during the June meeting and feedback from other stakeholders and developed the proposals set out in the current agenda items.
7. The Task Force has coordinated its efforts with the Non-Assurance Services (NAS) Task Force at a staff level to develop the proposed text relating to enhanced communication with those charged with governance (TCWG).

Coordination with IAASB

8. At the March 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 IESBA and the IESBA staff and leadership, a Joint Working Group (JWG) comprising representatives of the IAASB and IESBA (including the Task Force Chair) has been established to facilitate the timely coordination of overlapping topics arising from the Fees Project.
9. This JWG met first 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 not the official IAASB view. The Task Force presented the IAASB representatives' views to the Board at its June meeting.
10. The JWG met for the second time via teleconference on August 14. The IAASB representatives on the JWG were provided with the preliminary proposals of the Task Force regarding enhanced transparency developed at the Task Force's meeting in August. The IAASB representatives were generally supportive of the progress made in terms of the structure of the document, simplification of the provisions, and the greater focus on principles vs prescription. They noted the greater flexibility regarding the approach to public disclosure.
11. Although the IAASB representatives provided initial high-level responses, they indicated that they were not in a position to provide any definitive views until such time as the IAASB has had the opportunity to consider the revised proposals. The IAASB will consider the Task Force's proposals on overlapping issues for the first time in a dedicated session at its September 2019 meeting. The Task Force Chair will attend this IAASB 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 the second Fees session at the September 2019 IESBA meeting.

12. Amongst others, the following key technical issues were discussed during the call of the JWG in August:

Communication with TCWG

- The IAASB representatives noted that the pre-existing requirement in ISA 260 on communication of independence matters¹ is applicable only for listed entities whereas the Task Force’s proposal covers PIEs. There was some discussion about whether there would be any implications arising from this difference in scope. The IAASB representatives also noted that such a difference already exists with the extant ISAs and the Code and that these have been applied together for some time already.
- The IESBA representatives raised four possibilities: (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 to TCWG (including fees); and (iv) withdraw only the part of the requirement in ISA 260 that concerns communication of fee information to TCWG. It was recognized that option (i) could be potentially time consuming, especially given the upcoming IESBA project to review the definition of a PIE.

Public Disclosure in the Audit Report

- The IAASB Representatives recognized that the proposal is now less prescriptive and more principles-based. However, they were of the view that it would be more helpful if the proposals could include more examples of possible locations for the disclosure (and acknowledged that this may also raise the need for more guidance as to the meaning of “appropriate accessibility to stakeholders.”) They suggested that without further guidance, the audit report would be seen as the default location for the public disclosure.
- The IAASB representatives indicated that they would further consider how the proposals might affect the IAASB’s auditor reporting standards (in particular ISA 700 (Revised)), including the location in the auditor’s report when the auditor’s report is determined to be a suitable location for such disclosure. They also suggested appropriate coordination between the Task Force and the IAASB ISA 600² Task Force regarding the provisions that relate to disclosure of fee-related information for a group audit.

Matters for Board Consideration

Changes to Section 410

13. Taking into account Board members’ views expressed prior to and at the June IESBA meeting, the Task Force developed its updated proposals to Section 410³ of the Code as set out in **Agenda Item 3-A**. This paper highlights the key amendments, including greater clarity regarding the principles associated with the Task Force’s proposals.
14. The notes in the gray boxes in Agenda Item 3-A.1 summarize the Task Force’s rationale for its proposed revisions, alongside the changes in mark-up from the [June IESBA agenda material](#).

¹ ISA 260, Communication with Those Charged with Governance, paragraph 17(a)(i)-(ii).

² ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

³ Section 410, *Fees*

Conforming and Consequential Amendments

15. The Task Force recommends conforming changes and consequential amendments to other sections of Part 4A of the Code as set out in **Agenda Item 3-B**. The most significant of them, in Section 270⁴, relates to the clarification of the role of PAIBs (TCWG) in approving the level of audit fees. The Task Force has made no substantive changes to the conforming amendments comparing to those that were presented at the June IESBA meeting.
16. Some of the Task Force's proposals have given rise to consequential changes to Part 4B, Section 905⁵ of the Code. However, the Task Force does not believe that it is necessary to extend the proposals in Part 4A that relate to the specific role of the audit fee and the proportion of overall fees, such as provisions relevant only for PIE audit clients, to assurance engagements other than audit and review engagements. **Agenda Item 3-C** includes consequential amendments proposed to Section 905 in line with proposed changes to Section 410.

Action Requested

17. IESBA members are asked to consider the proposed revisions to the Code set out in the agenda items presented and provide their feedback, particularly in relation to the following matters:
 - (a) Does the Board agree with the Task Force that payment of fees by an audit client creates threats to independence and the Code should make explicit reference thereto?
 - (b) Does the Board agree with the Task Force that the Code should address the level of the audit fee as a standalone matter, and that it should include provisions to address threats created by fees paid for the provision of services other than audit to the audit client?
 - (c) Does the Board agree with the Task Force that in the case of fee dependency, the Code should have different approaches for PIE and non-PIE clients, allowing greater flexibility in the approach for non-PIE clients?
 - (d) Does the Board agree with the Task Force that excessive fee dependency on a PIE audit client should not be permitted to continue indefinitely unless, exceptionally, it can be shown to be in the public interest to do so?
 - (e) Does the Board agree with the Task Force that transparency is an appropriate tool to mitigate threats created by fees paid to a PIE audit client and that the Code should include provisions to promote such transparency?
 - (f) The possible ways to achieve public disclosure of fee-related information, and how the Code could promote such disclosure.

Next Steps

18. Subject to the Board's feedback at this meeting, the Task Force envisages presenting a draft Exposure Draft for consideration and approval in December 2019.
19. The Task Force Chair will brief the JWG on the Board's input on the overlapping issues after the IESBA meeting and will seek the IAASB representatives' feedback on the proposals in the draft

⁴ Section 270, *Pressure to Breach the Fundamental Principles*

⁵ Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements, Section 905, *Fees*

Exposure Draft.

Materials Presented

For Discussion

- Agenda Item 3-A Fees – Proposed Revisions to Part 4A (Clean)
- Agenda Item 3-B Fees – Proposed Consequential Changes to Part 4A (Mark-up from Extant)
- Agenda Item 3-C Fees – Proposed Conforming Amendments to Part 4B (Mark-up from Extant)

For Reference

- Agenda Item 3-A.1 Fees – Proposed Revisions to Part 4A with issues (Mark-up from June 2019 IESBA agenda material)