

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: March 4, 2019

Agenda Item

F

Fees

Objectives of Agenda Item

1. To:
 - (a) Report back on the September 2018 IESBA CAG discussion.
 - (b) Discuss key issues identified by the Task Force and to obtain Representatives' input on the Task Force's proposals that are intended to address the matters outlined in the [Fees Project Proposal](#).

Project Status and Timeline

Outline and Scope of Fees Project Proposal

2. In September 2018, pursuant to the June 2018 final report of the Fees Working Group ([Fees Final Report](#)), the IESBA approved the project proposal. 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 "revised and restructured Code" or the "Code") pertaining to fee-related matters. The [IESBA Project Timetable](#) anticipates a September 2019 approval date for the fees Exposure Draft (ED) that coincides with the ED for the Non-Assurance Services (NAS) project.
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 (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.

Report Back on September 2018 CAG Discussions

4. Appendix 1 includes a project history. At the September 2018 CAG meeting, Representatives expressed views on the final Report of the IESBA's fees fact-finding activities and on the project proposal. In developing its proposals, the Task Force carefully considered the Representatives' suggestions.

5. Below are extracts from the draft minutes of the September 2018 CAG meeting¹ and an indication of how the Task Force has responded to CAG Representatives' comments.²

Matters Raised	Task Force/ IESBA Response
PROJECT SCOPE AND COMMENTS ON FIRM BUSINESS MODEL	
<ul style="list-style-type: none"> Mr. Pavas remarked that the issue of enhancing fee-related provisions is important for the Latin-American region, especially for the non-PIE and SMP communities. 	Support noted.
<ul style="list-style-type: none"> Mr. James asked whether the Global Public Policy Committee (GPPC) was involved in the discussion on the business model. He suggested to provide this information to GPPC as well. Mr. Hansen was of the view that the business model issue cannot be addressed solely by the IESBA because of the regulatory dimension and linkage. Ms. Diplock noted that the issue of business model has been around since the formation of the IOB and has been the “elephant in the room” since the days of Enron. She wondered how it is going to be addressed if it is not part of the Fees project. Referring to the NAS Working Group’s briefing note from the global roundtables, she suggested that the blacklist and business model issues might be relevant to the Fees project. She added that the three matters that the IOB had asked the IESBA to consider addressing are fee restrictions in relation to NAS, the black list for NAS, and business model. Reacting to Dr. Thomadakis response, Ms. Diplock noted that in an ideal situation, standards setters and regulators together could indeed come up with the model that Dr, Thomadakis mentioned. However, she encouraged the IESBA to aim to produce 	<p>Points taken into account.</p> <p>Mr. McPhee informed the Representatives that the future Task Force will reach out to several stakeholders with its recommendations. See paragraph 8 of Agenda Item F-1.</p> <p>Responding to Ms. Diplock’s concerns Dr. Thomadakis remarked that the project proposals tabled at the meeting for CAG discussion indeed include significant matters raised by the IOB. Regarding the issue of the business model, he noted that stakeholders as well as the IOB have already realized that this is not a project just for the IESBA but that a broader coalition of standard-setting boards and other parties including the IOB should be engaged in this matter. Accordingly, this would require a more coordinated effort in order to be effective. He explained that the IESBA, instead of having an a-priori model, is currently working on the issue in an inductive way (for example, via the projects on fees and NAS), rather than a deductive way.</p> <p>Also, see the discussion about the business model under the heading titled “Audit Firm Business Model” in Agenda Item F-1.</p>

¹ The September 2018 CAG minutes will be approved during the March 2019 IESBA CAG meeting.

² The Task Force’s proposals will be first considered by the IESBA at its March 2019 meeting.

<p>some tangible outcomes related to the issue of business model.</p> <ul style="list-style-type: none"> Mr. Fortin raised the question as to how the IESBA’s long-term plans to deal with the issue of the audit firm business model. He suggested that the IESBA should work with the International Audit and Assurance Standards Board (IAASB) to address this issue. Mr. Koktvedgaard remarked that the business model is a broader issue than solely an IESBA issue, and not an integral part of this project. He asked the Representatives whether they agreed. Representatives did not raise any further comments. 	
<ul style="list-style-type: none"> Mr. Hansen had the understanding that there is a lack of information on this topic but he believed that continuing outreach and examination of the issues is the right way to proceed. He was of the view that the conclusions in the final report are appropriate. However, he had some concerns related to the issue of NAS. Regarding the recommended way forward related to the responsibility of PAIBs, he noted that the new CFOs often receive kudos for achieving reductions in audit fees, which he found counter-productive. He suggested considering some guidance material and education to help address this issue. 	<p>Points taken into account.</p> <p>During the meeting, Mr. McPhee agreed that PAIBs in a management position often put too much pressure on reducing audit fees. He indicated that the Task Force and the Board would review this issue in due course.</p> <p>Subsequently, the Task Force’s developed proposals that emphasize PAIBs’ responsibilities in setting fees (see the material under the heading titled “Consideration of PAIB Responsibilities in Agenda Item F-1).</p>
<p>LEVEL OF FEES</p>	
<ul style="list-style-type: none"> Mr. Hansen also remarked that nowadays significant new financial reporting standards involve lots of judgment to apply them. He raised the question regarding the extent to which it would be appropriate for firms to be involved in those services. He added that from a public interest standpoint, while auditors should not be involved in entities’ transition to the new standards, their 	<p>Points taken into account.</p> <p>Mr. McPhee responded that the Task Force will not confine its work to consideration of auditors’ involvement in advising clients on changes to financial reporting standards but would consider broader issues of principle. He also noted that the Task Force would consider how best to engage with the SMP community.</p>

<p>assistance could help improve financial reporting. Accordingly, this issue was a “double-edged sword.” Later in the session, he also noted his concern about the extremes of very low and very high fees, and he suggested that the Task Force address the extremes.</p> <ul style="list-style-type: none"> Ms. McGeachy-Colby agreed with Mr. Hansen’s comments regarding the new financial reporting standards, adding that providing advice to clients in relation to such new standards can enhance financial reporting quality. 	<p>See Section II of Agenda Item F-1.</p>
<ul style="list-style-type: none"> Mr. Dalkin remarked that if the Board were to set up minimum fees in some jurisdictions that could be considered anti-competitive. Therefore, he suggested that the Task Force focus on minimum audit quality rather than what the appropriate level or minimum level of fees should be. 	<p>Point taken into account.</p> <p>Mr. McPhee highlighted the recommendation in the final report that the Task Force would focus on audit quality while reviewing fee-related provisions. He added that the Task Force would also consider the responsibility of the engagement partner.</p> <p>See the material in Section II, Agenda Item F-1, under the heading titled “Elaboration of the Responsibilities of PAPP, Including Engagement Partners”.</p>
<ul style="list-style-type: none"> Ms. Vanich also highlighted the impact of technology at larger firms and the evolution of the charging rate model, which may now include an apportioned cost for intellectual property in addition to the usual formula of “rate multiplied by hours.” She believed there is also pressure for firms to charge for more effective use of technology. 	<p>Point taken into account.</p> <p>Mr. McPhee agreed with Ms. Vanich’s comments, noting that it would be important to manage the risks relating to technology.</p> <p>See the material in Section II, Agenda Item F-1, under the heading titled “Enhancing Provisions Relating to the Level of Fees for Audits”.</p>
<ul style="list-style-type: none"> Ms. Vanich emphasized the importance of the role of the TCWG in establishing fair fees to support a high quality audit. Ms. McGeachy-Colby suggested that the Task Force should provide some guidance that would resonate with TCWG. 	<p>Points accepted.</p> <p>Mr. McPhee agreed, noting that boards of directors often see the audit as a commodity.</p> <p>See Section II of Agenda Item F-1 under the heading titled “Enhanced Transparency about Fee-related Matters.”</p>
<ul style="list-style-type: none"> Regarding pre- approval of NAS by those TCWG, Ms. Meng noted that in her view 	<p>Point accepted.</p>

<p>liability lies with the auditor with respect to complying with the provisions on independence, not with TCWG. Related to public disclosure, she queried, in case of the listed companies, who would be responsible for the disclosure, the entities themselves or someone else.</p>	<p>Mr. McPhee responded that the WG's intention was only to understand the issue of transparency better, as greater transparency could go part way to addressing the issue.</p> <p>See Section II of Agenda Item F-1 under the subheading titled, "Task Force Proposal for Public Disclosure".</p>
<p>OTHER MATTERS</p>	
<ul style="list-style-type: none"> • Ms. McGeachy-Colby appreciated the WG's proposal to update the IESBA Staff publication on fees. 	<p>Point accepted.</p> <p>As noted in paragraph 10 of Agenda Item F-1, the fees Staff publication will be updated and released in due course.</p>
<ul style="list-style-type: none"> • Ms. Vanich suggested considering coordination with the IAASB in relation to the provisions of proposed revised ISQC 1 regarding how firms address incentives and pressures in relation to engagement team members' performance evaluations. • Ms. Robert noted that the emphasis on adequate resources is important in this area. Therefore, she saw the revision of ISQC 1 as a great opportunity. She suggested coordinating the Fees project with the review of ISQC 1. 	<p>Point accepted.</p> <p>During the meeting, Mr. McPhee informed the CAG that the Task Force would follow the revisions of ISQC 1 and the relevant auditing standards.</p> <p>See also paragraph 6 of Agenda Item F-1.</p>
<ul style="list-style-type: none"> • Mr. Koktvedgaard queried if the WG considered the issue of fees in a network context, especially how to ensure that the allocation of audit fees at the group level preserves audit quality. • Reflecting on Mr. Koktvedgaard request, Mr. Hansen asked if there are rules in the Code on responsibilities for fees. He suggested that the Task Force consider exploring this issue, and also consider developing some guidance similar to the provisions relating to audit committees in the Sarbanes-Oxley Act in the US. 	<p>Point accepted.</p> <p>Mr. Siong acknowledged the question, noting that this is an issue for further reflection and engagement with the IAASB in the context of the revision of ISQC 1.</p>

<ul style="list-style-type: none">• Ms. McGeachy-Colby requested the IESBA to consider including a representative of the IFAC SMP Committee in the Task Force.	Point noted.
--	--------------

Coordination with the NAS Task Force and IAASB

6. It is anticipated that the timing for the finalization of the Task Force's proposals will coincide with those of the NAS Task Force. Proposals that are intended to address similar or the same issues (e.g. transparency and enhanced auditor communication with TCWG) will be dealt with in a coordinated manner and joint and separate communications will be tailored as appropriate in order to focus and solicit stakeholder input about all NAS and fee-related issues.
7. The Task Force Chair has liaised with the Chair of NAS Task Force and discussed the overlapping issues and proposals. For example, the Task Force provided input on a NAS proposal that is intended to establish a fee-threshold in the Code in response to stakeholders' concerns about the ratio of audit fees and fees for services other than audit.
8. The Task Force is also conscious that its work will cover the consideration of certain issues that are currently being explored by the IAASB as part of its Quality Management EDs.³

March 2019 IESBA Meeting

9. The IESBA will consider at its March 2019 meeting, the Task Force's proposals to address the various fee-related issues outlined in the fees project proposal.

Next Steps

10. IESBA representatives will seek input from:
 - The Forum of Firms (FoF) about the proposals being explored by the Fees Task Force at the FoF meeting in April 2019.
 - The IESBA National Standard Setters Liaison Group (NSS) at the NSS meeting in May 2019.
11. The Task Force will consider the feedback from both above-mentioned meetings in developing agenda materials for the June 2019 IESBA meeting.
12. **Matters for CAG Consideration**
13. At its March 2019 meeting, the CAG will receive a presentation summarizing the Task Force proposals and will be asked to:
 - (a) Note the report back in paragraph 5.
 - (b) Consider the matters for consideration in **Agenda Item F-1**.

³ The IAASB's Quality Management EDs comprise:

- 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](#)
- Proposed International Standard on Auditing (ISA) 220 (Revised), [Quality Management for an Audit of Financial Statements](#) and
- Proposed ISQM 2, [Engagement Quality Reviews](#)

- (c) Provide views about any other matters that Representatives believe should be dealt with in a Fees project.

Material Presented

Agenda Item F-1 Fees – Issues and Task Force Proposals

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

IESBA Agenda Item 6-B, Fees – [Preliminary Draft of Proposed Changes to the Code Approved Fees Project Proposal](#)