Objectives of Agenda Item

1. To consider and approve a project proposal (Project Proposal) to address the issues identified by the Fees Working Group (WG) in its final report.

Working Group

2. The WG comprises:
   - Ian McPhee, Chair, IESBA Member
   - Michael Ashley, IESBA Member
   - Caroline Lee, IESBA Member
   - Alden Leung, IESBA Member

Background

3. The IESBA established the WG in July 2015 to initiate fact finding on fee-related matters in various jurisdictions. At its March 2016 meeting, the IESBA:
   (a) Approved the WG’s Terms of Reference; and
   (b) Agreed the scope and focus of, and approach to, the WG’s fact finding.

4. The WG’s fact finding activities included the following:
   (a) A review of relevant fee-related laws and regulations in a number of G20 jurisdictions, focusing on the national requirements that are more stringent that the provisions of the Code. The WG presented the results at the December 2016 IESBA meeting.
   (b) A review of relevant academic and other literature, which the IESBA commissioned an academic, Prof. David Hay, to undertake. In December 2016, Prof. Hay presented the Board his report and observations.
   (c) The issuance of a survey questionnaire in November 2017, with a response period until March 1, 2018, to gather further views from stakeholders with respect to the fee-related matters being explored by the WG.

5. At the June 2018 IESBA meeting, the WG presented its final report on the outcome of the fact finding activities. The final report also included the WG’s recommended way forward with respect to following focus areas:
   (a) Level of audit fees for individual audit engagements (level of fees);
(b) Relative size of fees to the partner, office or the firm from a particular client (fee dependency);
(c) The ratio of non-audit services fees to audit fees paid by an audit client;
(d) The provision of audit services by a firm that also has a significant non-audit services business (business model);
(e) Fee-related safeguards in the Code.

6. The IESBA discussed the outcome of the fact-finding activities and the WG’s recommended way forward and supported the WG’s proposition that some issues might be addressed by other work streams of the IESBA.

7. The IESBA asked the WG to develop a project proposal for potential enhancements to the Code in relation to the topic of fees and, as part of this project, to update the IESBA Staff publication *Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure* to align it with the revised and restructured Code.

8. Based on the Board’s decision, the WG has developed the Project Proposal which provides an overview of all the items set out in the WG’s recommended way forward with respect to the above focus areas. However, the scope of the project proposal only encompasses the areas of (a) level of fees, (b) fee dependency, and (c) fee-related safeguards.

9. The Project Proposal includes references to the issues of the ratio of non-audit services fees to audit fees and firms’ business model. Pursuant to the WG’s recommended way forward in its final report, and as agreed by the Board, the former is to be considered further by the Non-assurance Services (NAS) Working Group (see Agenda Item 9). The latter has been touched on by the NAS Working Group in its deliberations (see Agenda Item 9-A), and the Fees WG is recommending that the way forward on that issue be further considered by the IESBA Planning Committee.

Activities since last IESBA Discussion

10. The WG held a conference call in August 2018 to develop the Project Proposal for this Board meeting.

11. The WG will present the Project Proposal set out as Agenda Item 4-A to the IESBA CAG at its September 2018 meeting to seek the views and input of the CAG Representatives.

Action Requested

12. IESBA members are asked to consider and approve the project proposal in Agenda Item 4-A.

Material Presented

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<th>Fees Project Proposal</th>
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<td>Agenda Item 4-B</td>
<td>Comments on the Project Proposal from Standard-Setting Board and IFAC Technical Managers</td>
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