

**Report of the Fees Working Group
[IESBA June 2018 Meeting Issues Paper]**

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Executive Summary

I. Focus Area 1 – Level of Audit Fees

Key Working Group Findings

- There are reasonable perceptions that an unduly low level of audit fees could create threats to compliance with the fundamental principles and adversely impact audit quality.
- The determination of an appropriate fee level for a particular audit engagement depends on many factors and it is not practicable for a Code with global application to prescribe a specific fee level, not least because of anti-competition laws in many jurisdictions.
- Some jurisdictions have established rules or standards to emphasize clearly that fees charged must not be allowed to impair the auditor's ability to perform the audit engagement according to standards and regulations.
- Some respondents to the stakeholder survey have suggested consideration of the role of those charged with governance (TCWG) and those taking part in decisions concerning the appointment and reappointment of auditors, particularly with respect to raising their awareness of the risks relating to fee pressure.

Recommended Way Forward

The IESBA should consider:

- Strengthening Section 330¹ to require that the level of fees quoted must not be allowed to impair a professional accountant's ability to perform the professional services in accordance with professional standards and regulatory requirements.
- Introducing provisions making it clearer that it is the engagement partner's personal responsibility to address any threats presented by the level of fees, such as being able to demonstrate that sufficient resources have been assigned to the engagement.
- Whether there is a case for enhancing the Code in relation to the responsibility of professional accountants in business (PAIBs) when they play a role in appointing or reappointing auditors.
- Updating the January 2017 staff publication on fee pressure to include revisions to safeguards, update references to the new Code, and inform stakeholders of any ongoing project or initiative.

II. Focus Area 2 – Fee Dependency

Key Working Group Findings

- In most of the observed jurisdictions from the G-20 benchmarking, as well as in the EU, standards or regulation dealing with fee dependency at office and partner levels and the percentage of total revenue from a public interest entity (PIE) audit client align with the Code. There is little research or evidence to suggest that changing the threshold for percentage of the revenue generated from PIE clients will reduce threats to independence.
- A few respondents to the stakeholder survey, however, have indicated that in their jurisdictions there are more stringent rules than the Code to address the fee dependency issue.

- Information gathered from the fact finding activities does not indicate a need to enhance the Code relating to fee dependency at the office or partner level.

Recommended Way Forward

The IESBA should consider, in light of the approaches taken by some jurisdictions to addressing the fee dependency issue, the opportunity for enhancing the application material in the Code in relation to fee dependency, including whether there is a case for having a threshold for non-PIEs.

III. Focus Area 3 – Ratio of Non-Audit Services Fees to Audit Fees

Key Working Group Findings

- There is a *reasonable perception*, which is also broadly supported by responses to the stakeholder survey and the review of academic literature, that a high ratio of non-audit services fees to audit fees creates threats to independence (particularly, threats to independence in appearance).
- Many jurisdictions have specific rules, mainly for PIEs, related to disclosure of fees or communication with TCWG (including audit committee pre-approval of non-audit services). In addition, some jurisdictions have introduced a cap for non-audit services fee to address the threats to independence.

Recommended Way Forward

The Working Group recommends:

- The Non-Assurances Services Working Group to take into consideration the relevant issues and analysis of this paper as it develops its thinking on the issues in the NAS initiative. This includes consideration of the following options:
 - Requiring an assessment of the nature, frequency, value and cumulative effect of non-audit services on independence when providing multiple non-audit services to audit clients;
 - Considering the role of disclosure of fee-related information to stakeholders, including public disclosure;
 - Considering enhanced provisions relating to communication with TCWG, including seeking pre-approval of non-audit services, as was also suggested by the Public Interest Oversight Board (PIOB);
 - Applying a cap on the level of fees for non-audit services in relation to audit fees, as a trigger to require the professional accountant to reassess the threats to independence;
 - Hard-wiring in the Code a cap on the level of fees for non-audit services in relation to audit fees, and whether caps should be set in relation to both PIEs and non-PIEs; and
- The IESBA to determine in due course how this work should be progressed.

¹ Part 3 – Professional Accountants in Public Practice, Section 330, *Fees and Other Types of Remuneration*

IV. Focus Area 4 – Business Model

Key Working Group Findings

- Some stakeholders and the PIOB remain concerned about the potential risks to audit quality and threats to compliance with the fundamental principles and to independence arising from the business model of firms, particularly large firms.
- The review of academic research, however, indicates no firm evidence that the provision of audit services by a firm that also has a significant non-audit services business creates threats to compliance with the fundamental principles and to independence.
- From the G-20 benchmarking and stakeholder survey, there is no indication of jurisdictions that have developed standards or regulation to address this issue.

Recommended Way Forward

As this topic is complex and multi-faceted, the Working Group does not believe that it can be appropriately addressed solely by the IESBA. Rather, a multi-stakeholder approach to dialogue on the issues is needed. As part of this, the Working Group recommends that the IESBA discuss with the IAASB how the two standard-setting boards might approach the issue in a coordinated way.

Notwithstanding dialogue among stakeholders, measures that have been proposed for IESBA consideration in this report might go part-way to addressing some of the stakeholder concerns in relation to the business model issue.

V. Other – Fee-related Safeguards

Based on its review of the fee-related provisions in the *extant* Code, the International Organization of Securities Commissions (IOSCO) has raised some specific concerns regarding safeguards with respect to the level of fees.

Recommended Way Forward

While the revisions in the restructured Code have addressed some of the concerns raised by IOSCO, the Working Group is of the view that there is a case for the IESBA to undertake a review of the relevant fee-related safeguards to fully address its comments. The Working Group recommends that the IESBA consider the timing of such a review as part of the finalization of its Strategy and Work Plan 2019-2023.

VI. Consideration of a Project on Fees

The PIOB has expressed the view that there are sufficient concerns among stakeholders that an IESBA project on fees is justified. After due consideration of the information gathered, the Working Group also has formed the view that a project should be established.

Subject to Board consideration of the Working Group's findings and recommended way forward in relation to each of the five areas noted above, the Working Group asks that the IESBA consider the merits of, and if so, agree to, a project on fee-related matters and its scope. Should the IESBA agree, the Working Group will develop a project proposal for the Board's consideration at the September 2018 meeting.

I. Introduction

Background

1. As noted in its [Strategy and Work Plan 2014-2018](#), the IESBA is committed to undertaking work to further understand a number of fee-related matters in response to feedback from regulatory bodies, such as IOSCO, and the changing global environment.
2. In approving the IESBA's April 2015 pronouncement, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#), the PIOB asked the IESBA to revisit issues on auditor independence and “non-audit services” more broadly, including fee-related matters. In response, the IESBA decided to bring forward its fees-related initiative, which was planned to commence in 2017. As a result, the IESBA:
 - Established the Fees Working Group (WG) in July 2015;
 - Commissioned the IESBA Staff publication, [Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#) that was released in January 2016, as a first step in addressing the topic; and
 - Approved, at its March 2016 meeting, the terms of reference for the WG setting out the scope and focus of, and approach to, its fact finding activities.

Working Group Terms of Reference

3. The Terms of Reference state that the WG's objectives are to undertake a series of fact finding activities regarding fees in various jurisdictions with a view to identifying whether there is a relationship between fees and threats to compliance with the fundamental principles or to independence, or whether there are reasonable perceptions that such threats exist, as well as how such threats might be addressed.
4. These fact finding activities were to focus on the following four areas:
 - Level of audit fees for individual audit engagements.
 - Relative size of fees to the partner, office or the firm, and the extent to which partners' remuneration is dependent upon fees from a particular client (fee dependency).
 - The ratio of non-audit services fees to audit fees paid by an audit client.
 - The provision of audit services by a firm that also has a significant non-audit services business (business model).
5. The WG's fact finding activities included:
 - (a) An overview of the relevant fee provisions in the G-20 jurisdictions (G-20 benchmarking);
 - (b) A review of relevant academic research and other literature; and
 - (c) Outreach to stakeholders to obtain their perspectives about fee-related matters (stakeholder outreach).
6. The Terms of Reference specified that the WG was to present the Board with a report summarizing its findings and recommendations. Depending on the outcome of its deliberations, the Board might then commission the WG to develop a project proposal.

7. Consistent with the terminology used by IOSCO and the PIOB to describe fee-related matters, the term “non-audit services” was used in the Terms of Reference. The WG notes that the terms “non-audit services” and “non-assurance services” are not defined in either the extant Code or the restructured Code. The use of the term “non-audit services” in the Code is limited and not in a fee-related context. In contrast, the term “non-assurance services” is used throughout the Code when referring to engagements that do not meet the definition of assurance engagements. For the purposes of this paper, the term “non-assurance services” will be used when referring to the provisions of the Code.

II. Overview of the Fee-related Provisions of the Restructured Code and the Standards of the International Auditing and Assurance Standards Board (IAASB)

Fee-related Provisions of the Code

8. The restructured Code (the Code) includes an enhanced conceptual framework and revised examples of actions that might be safeguards to threats to compliance with the fundamental principles and to independence also in the context of fee-related matters. For reference, the Table of Concordance in Appendix 1 gives a comparison of the fee related provisions in Part B of the extant Code and Part 3 of the Code.
9. The Code contains fee-related provisions in Parts 3, 4A² and 4B³ as follows:
- Section 330 of the Code provides application material on how to deal with self-interest threats to compliance with the fundamental principles relating to the level of fees, contingent fees, referral fees and commissions.
 - Regarding the level of fees, Section 330 states that the level of fees quoted might impact a professional accountant’s ability to perform professional services in accordance with professional standards. The Code acknowledges that a professional accountant might quote whatever fee is considered appropriate. It states that quoting a fee lower than another accountant is not in itself unethical. However, it also makes clear that the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.⁴ The Code also specifies factors to evaluate the level of such a threat and provides examples of actions that might be safeguards to address this threat.⁵
 - Both Parts 4A and 4B set out requirements and application material related to the relative size of audit fees from an audit or assurance client.
 - In Part 4A, the Code states that when the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client

² Part 4A – Independence for Audit and Review Engagements, Section 410, *Fees*

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

⁴ Paragraph 330.3 A2

⁵ Paragraph 330.3 A3-A4

- create a self-interest or intimidation threat (a similar provision is in Part 4B with respect to an assurance client).⁶
- The Code also states in Part 4A that a self-interest or intimidation threat is created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm (a corresponding provision exists in Part 4B but limited to an individual partner).⁷
 - In addition, for audit engagements, the Code includes disclosure requirements for firms and specific actions that might be safeguards for situations in which the audit client is a PIE, and the total fees received from the client and its related entities are greater than 15% of the firm's total fees for two consecutive years.⁸
10. The Code also includes provisions in relation to the evaluation or compensation of an audit team member for selling non-assurance services to an audit client. It requires in particular that a firm not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. It, however, makes clear that this requirement does not preclude normal profit-sharing arrangements between partners of the firm.⁹
11. Regarding the role of TCWG, the Code encourages regular communication between a firm and TCWG regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence even when not required by the Code, applicable professional standards, laws or regulations. It adds that such communication enables TCWG to consider the firm's actions in identifying, evaluating and addressing threats, and to take appropriate action.¹⁰
12. The Code requires a firm or network firm to determine whether providing a non-assurance service to an audit client might create a threat to independence before accepting an engagement to provide such a service.¹¹ It also provides guidance on considering the combined effect of threats created by providing multiple non-assurance services to an audit client.¹²
13. The Code does not contain provisions that directly deal with issues relating to the ratio of non-assurance services fees to audit fees for a given audit client, or the firm's business model.

Fee-related Provisions in IAASB Standards

14. The International Standards on Auditing (ISAs) require certain auditor communications with TCWG. In relation to the audits of listed entities, ISA 260 requires auditors to communicate with TCWG "...all relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on

⁶ Paragraphs 410.3 A1 and 905.3 A1

⁷ Paragraphs 410.3 A4 and 905.3 A4

⁸ Paragraphs R410.4 – R410.6

⁹ Section 411, *Compensation and Evaluation Policies*, paragraph R411.4

¹⁰ Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraph 400.40 A2

¹¹ Section 600, *Provision of Non-Assurance Services to an Audit Client*, paragraph R600.4

¹² Paragraph 600.5 A4

independence,” including 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. As part of this communication, ISA 260 requires that the fees be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor.¹³

15. International Standard on Quality Control (ISQC) 1 requires a firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.¹⁴ With regard to the integrity of the client, ISQC 1 specifies, as an example of a matter to consider, whether the client is aggressively concerned with maintaining the firm’s fees as low as possible.¹⁵

III. Overview and Main Outcomes of Fact-finding Activities

Benchmarking

16. During the December 2016 IESBA meeting, the WG presented a high level review of the relevant ethics standards, laws and regulations relating to fees for 11 countries from the G-20,¹⁶ and the relevant provisions of the EU Regulation.
17. It is noted that the findings summarized below may not necessarily reflect the latest positions given that the benchmarking exercise was conducted in late 2016.

Level of Fees

18. Regarding the level of audit fees, four jurisdictions¹⁷ have specific provisions relating to level of audit fees, particularly low level of fees and pricing, that are more extensive than the Code’s provisions. These jurisdictional provisions include:
 - A requirement that the audit fee be determined so as to ensure the quality and the reliability of the audit work.¹⁸
 - A requirement that such fee be in relation to the procedures based on the size, nature and complexity of the audited entity’s business.¹⁹
 - Specific requirements with actions that might be used as safeguards in the event that the audit fee is significantly lower than that charged by the predecessor auditor, or contained in other proposals of the engagements.²⁰ These actions include, that the

¹³ ISA 260, *Communication with Those Charged with Governance*, paragraph 17(a)(i)-(ii).

¹⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 26(c)

¹⁵ ISQC 1, paragraph A19

¹⁶ Australia, Brazil, Canada, France, Germany, India, Italy, Mexico, South Africa, UK, US

¹⁷ Canada, France, Italy, UK

¹⁸ Italian Legislative Decree no. 39, January 27, 2010, Article 10

¹⁹ French Code of Ethics, Article 31

²⁰ Canada, CPA Code of Professional Conduct, paragraph 204.4 (36)

professional accountant or firm should demonstrate:

- That qualified members have been assigned to the engagement, who will devote the appropriate time to it and
- That all the applicable standards, guidelines and quality control procedures have been followed.
- A requirement that the engagement partner be able to demonstrate that the fee for the audit is adequate to cover the assignment of appropriate time and qualified staff to perform the engagement in accordance with all applicable standards and guidelines.²¹

Fee Dependency

19. Most observed jurisdictions have requirements related to proportion of the revenue of the firm and of an individual partner generated from one client.
20. Regarding PIE audit clients, the Code includes actions that might be safeguards for situations in which the audit client is a PIE, and the total fees received from the client and its related entities are greater than 15% of the firm's total fees for two consecutive years. Most jurisdictions set out a specific threshold (15%) that is in line with the Code. However, in the EU Regulation the threshold is for three consecutive years.²²
21. The WG noted that the UK FRC's Ethical Standard has more stringent rules regarding the threshold for PIE clients (10 %), and that it also sets out a threshold for non-PIE clients (15 %).²³

Ratio Non-Audit Services Fees to Audit Fees

22. Three jurisdictional measures highlighted in the WG's benchmarking relevant to dealing with the ratio of non-audit services to audit fees, and explained further below, are:
 - A fee cap for the provision of non-audit services to audit clients.
 - Disclosure of fees.
 - Pre-approval of services by TCWG.
23. The new audit framework in the EU consists of a Directive and a Regulation. The Regulation is directly applicable in all EU member countries to auditors of PIEs, from the financial year starting after 16 June 2016. The EU Regulation introduced a cap to the total fees of allowed non-audit services paid to the audit firm by the audited entity. The Regulation sets out that the total fees from the allowed non-audit services paid to the audit firm by the audited entity has to be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the audit of the audited entity (on group level).²⁴

²¹ UK Financial Reporting Council (FRC) Ethical Standard, paragraphs 4.1 and 4.2

²² 537/2014 EU Regulation Article 4, paragraph 3

²³ UK FRC Ethical Standard, paragraphs 4.42-4.55

²⁴ 537/2014 EU Regulation, Article 4, paragraph 2

24. In many jurisdictions such as Canada²⁵, US²⁶ and the EU member countries,²⁷ there are requirements to disclose audit fees, assurance fees and other audit-related fees charged by the statutory auditor of PIEs. In most instances, it is the obligation of the audited entity to provide or make this information public. In addition, the EU Regulation also requires the statutory auditors of PIEs to provide fee-related information and disclose annually aggregated revenue in their transparency²⁸ report in the following categories:
- Revenues from the statutory audit of annual and consolidated financial statements of PIEs and entities belonging to a group of undertakings whose parent undertaking is a PIE;
 - Revenues from the statutory audit of annual and consolidated financial statements of other entities;
 - Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and
 - Revenues from non-audit services to other entities.²⁹
25. Regarding the role of TCWG, audit committees in some jurisdictions are required to pre-approve non-audit services provided by auditors.³⁰

Business Model

26. Based on the information received from the benchmarking review, the WG did not identify any jurisdictions that have ethics standards, laws or regulations that directly address threats to compliance with the fundamental principles or to independence relating to the provision of audit services by firms with significant non-assurance services businesses. This finding was confirmed by the responses of the national standard setters (NSS) and regulators who responded as part of the stakeholders outreach activity.

²⁵ Canada, National Instruments 52-110 *Audit Committees*

²⁶ US SEC Rule 17 CFR 240.14a-101, Schedule 14A, Information required in proxy statement

²⁷ 2013/34/ EU Directive Article 18

²⁸ 537/2014/EU Regulation, Article 14

²⁹ 537/2014/ EU Regulation Article 13

³⁰ The WG found relevant rules in the following observed jurisdictions :

- In the US, the SEC Rule 17 CFR 210.2-01(c) (7) (i) requires audit committees to pre-approve all audit and non-audit services.
- In South Africa, the Companies Act, 2008 (Act No. 71 of 2008) Section 94 (7) (d) requires audit committee to determine the nature and extent of any non-audit services that the auditor may provide to the company, or that the auditor must not provide to the company, or a related company
- 537/2014/EU Regulation Article 5, paragraph 4 requires approval of the audit committee if the audit firm (or the member of the network) intends to provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services.
- Canada, CPA Code of Professional Conduct, paragraph 204.4 (21) states that a professional accountant or firm shall not provide a professional service to an audit client that is a reporting issuer or listed entity, or to a subsidiary thereof, without the prior approval of the reporting issuer's or listed entity's audit committee.

Summary of Academic Research

27. In 2016, the IESBA commissioned Prof. David Hay, Professor of Auditing, University of Auckland, New Zealand to undertake a review of the relevant academic and other literature on the topic of fees (summary of academic research). The scope of Prof. Hay's work was limited to a review of existing studies on audit fees between 2006 and 2016 and did not include any quantitative meta-analysis of those studies or examination of primary data. It also did not focus on causal effects. Instead, it was an analysis around correlations of different elements. Further, it did not consider any inspection reports from regulators.
28. With regard to each of the four areas of focus, Prof. Hay's summary observations in his [final report](#) are restated in the following table.

Focus Area 1: Level of audit fees for individual audit engagements	
<i>Ethical issue 1</i>	Low fees could impair professional competency and due care.
<i>Research findings</i>	Audit fees increased in the early part of the twenty-first century; some evidence in some circumstances shows associations between low fees and low quality.
<i>Ethical issue 2</i>	Lowballing (professional competency and due care).
<i>Research findings</i>	Fees are lower after a change of auditor. Mixed results on whether quality is lower.
Focus Area 2: Relative size of fees to the partner, office or firm and the extent to which partner remuneration is dependent upon fees from a particular client	
<i>Ethical issue</i>	Dependence
<i>Research findings</i>	Evidence generally that auditor independence is not reduced when there are high relative fees; but there is also some opposing evidence.
Focus Area 3: Ratio of non-audit services fees to audit fees	
<i>Ethical issue</i>	Objectivity including independence of mind and independence in appearance.
<i>Research findings</i>	Numerous studies find evidence of loss of independence in appearance. There is some evidence in some circumstances of reduced independence of mind.
Focus Area 4: Provision of audit services by a firm that also has a significant non-audit services businesses	
<i>Ethical issue</i>	Professional competence and due care.
<i>Research findings</i>	Some evidence but not much.

29. Prof. Hay further noted in his final report the following:

“The potential risks include...auditors reducing fees to attract audit engagements; auditors being dependent on audit fees; auditors providing non-audit services to their audit clients and audit firms that provide extensive non-audit services. Most research studies do not find substantial concerns in these areas. There are a few recent studies which show some concerns, however. There is consistent evidence that audit fees for new engagements are lower and that non-audit services affect independence in appearance...

There is a mixture of risks to auditor independence that are confirmed by the research evidence; risks that are not confirmed; and risks where evidence is mixed. There is no evidence of auditors using the audit as a loss-leader to obtain more lucrative consulting work. There are few signs of audit fees being too low to be able to conduct an adequate audit.

Nevertheless, there is evidence of some issues of concern, including non-audit services associated with indications of reduced independence; and non-audit services leading to reduced independence in appearance...

In general, audit fee research does not convey a message that there are widespread ethical problems. Nevertheless, there are some risk areas.”

30. In a subsequent letter to the IESBA in August 2017, Prof. Hay reaffirmed his observations that when auditors provide non-audit services to audit clients, it has an impact on independence in appearance. He further suggested that one possible solution to address the issue is for the Code to require that auditors provide information to TCWG, by way of “warning,” that high levels of non-audit services are known to have a negative effect on earnings response coefficients and on firm value.

Summary of Stakeholder Outreach Activity

31. During the final phase of the fact finding activities, the WG developed a questionnaire to seek input from a broad range of stakeholders on fee-related matters (fees questionnaire). There were 73 responses received representing a diverse group of stakeholders from many jurisdictions (see Appendix II):

Category of Respondent	Number of Responses
Investors and Other Users of Financial Statements	2
Preparers	2
TCWG	3
Regulators and Audit Oversight Authorities	4
NSS	2
Firms	36
Public Sector Organizations	1
IFAC Member Bodies	16
Individuals, Academics and Other Professional Organizations	7
Total	73

32. The fees questionnaire was divided into 6 sets of questions aimed at different stakeholder groups. Each set contained questions on whether fees charged by an auditor could give rise to ethics issues and whether the Code establishes sufficient and appropriate provisions to help deal with possible threats to compliance with the fundamental principles and to independence that might be created by the level of fees charged (common questions). Additionally, all groups were asked to express their opinions on the possible threats created by a high ratio of non-audit fees to audit fees charged to an audit or assurance client, and also on the possible impact on compliance with the fundamental principles if a high percentage of a firm's revenue is generated from providing non-audit services to the firm's audit clients. There were also specific questions such as whether firms have relevant policies and procedures in place.
33. In considering the responses, the WG focused only on those concerns and suggestions of the respondents that were related to issues within its ambit.

Summary of Regulators' and Audit Oversight Authorities' (Regulators) Responses

34. In addition to the common questions, regulators were asked about the regulatory requirements in their jurisdictions related to level of fees and non-audit services and also about their experiences and concerns with respect to fee-related matters.³¹
35. The regulators shared the view that the level of audit fees could give rise to independence or ethics issues. They did not believe the extant Code's current provisions and safeguards are sufficient to help auditors deal with threats created by fee-related issues. A few of the regulators³² also referred to their national standards and laws that are in some cases more stringent than the Code.
36. A few regulators³³ suggested that the IESBA:
- Consider re-evaluating the safeguards in the Code to determine whether they adequately address fee issues.
 - Work with the small- and medium-sized practices (SMPs) to develop further guidance on the implementation of safeguards for smaller firms.
37. The IOSCO recommended that the IESBA enhance the safeguards in the extant Code. It believes that the provisions of the extant Code should better emphasize that low audit fees can create perception issues as to whether audit quality is being compromised. In order to mitigate this risk, IOSCO suggested that the "Code should include safeguards including not accepting, or resigning from, the audit engagement, and not pursuing non-audit fees to compensate."³⁴ It also suggested that the safeguards in the extant Code are only good practices and therefore not appropriately categorized as safeguards. It suggested that safeguards for contingent fees in the extant Code should also be used as safeguards regarding the level of fees.

³¹ The UK FRC, Independent Regulatory Board for Auditors, South Africa (IRBA) and National Association of State Boards of Accountancy, US (NASBA) provided their feedback to the questions in the questionnaire, whereas IOSCO provided its comments on the effectiveness of the extant Code's safeguards based on its review of the extant Code.

³² UKFRC, IRBA, NASBA

³³ NASBA, IOSCO

³⁴ Extant Code, Part B – Professional Accountants in Public Practice, Section 240, *Fees and Other Types of Remuneration*, paragraph 240.1., and the Code, Part 3, paragraphs 330.3. A1- 330.3 A4

38. IOSCO was also of the view that the safeguards³⁵ about using a professional accountant who was not a member of the audit or assurance team to mitigate the threat are also inappropriate since the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors.
39. In addition to comments relating to safeguards, IOSCO suggested that the IESBA consider provisions related to providing non-audit services. It believes that the Code should require the auditor to seek approval in advance from TCWG for all non-audit services. Further, it believes that the IESBA should consider adding to the Code a requirement similar to those in some jurisdictions that require an auditor to assess the nature, size and cumulative effect of threats to independence when the auditor is providing multiple non-audit services to an audit client, prior to the acceptance of those services.
40. The WG notes that it did not receive any specific information or evidence from audit inspections or investigations.

Summary of NSS Responses

41. The IESBA received responses from only two NSS.³⁶ One respondent is of the view that the Code is sufficient in addressing threats related to fees but suggested that the IESBA include a ratio as an additional factor to consider when evaluating the level of threats created if providing both assurance and non-assurance services to a client.³⁷ This respondent also suggested that based on the changing nature of audit firms and their expansion into additional service offerings, the IESBA should review whether the 15% threshold for fees earned from a PIE audit client is appropriate.³⁸
42. The other respondent expressed concerns about the downward pressure on audit fees. This was based on their observation that requirements in auditing standards have increased, but there has been no apparent corresponding increase in audit fees.³⁹ This respondent suggested that the Code could be strengthened in terms of considering all fees and the impact on independence, and considering having TCWG, rather than management, approve all fees paid to auditors.

Summary of Responses of TCWG and Investors

43. The fees questionnaire for TCWG included questions on the role of the level of fees and the quality of the audit in the consideration of appointment of an auditor. Representatives of TGWG, albeit only a small number, indicated that the audit fee is only a factor among others in the appointment of the auditor, and that there is no specific policy or procedure in place at their organizations to ensure that the auditor is not affected by the level of fee charged. They considered that the Code has sufficient provisions and believed that further administrative burden created by standard setters and regulators is not warranted. The respondents also

³⁵ Extant Code Part B, paragraph 291.149 and the Code Part 4B, paragraph 905.3

³⁶ Accounting Professional and Ethical Standard Board, Australia (APESB), and New Zealand Auditing and Assurance Standards Board (NZAuASB)

³⁷ APESB

³⁸ APESB

³⁹ NZAuASB

suggested a role might be given to audit standard setters to ensure that standards are appropriate for the risk.

44. Respondents from the investor community were of the view that the level of fees is a key factor for the engagement, and that investors should include consideration of the level of fees charged by audit firms when voting on the election of the audit committee chair and members and on ratification of the external auditor.⁴⁰ They further stated that the Code is sufficient whilst suggesting disclosure of fees in relation to all companies, not just PIEs.⁴¹

Summary of Firms' Responses

45. As shown in the table above, most responses were provided by firms, with 20 of the 36 respondent firms belonging to the [Forum of Firms](#). In addition to the general questions, firms were also asked about their policies and procedures related to threats that might be created by the level of fees charged, and also about their policies on the provision of non-audit services to audit and assurance clients.
46. Whilst most firms agreed that the level of fees charged by auditors could give rise to ethics or independence issues, the general view was that the provisions of the Code are sufficient to help firms deal with threats that might be created by the level of fees charged. Most of these respondents made some recommendations and suggestions to further improve or complement the current framework, such as raising awareness of the provisions of the Code through education and external guidance without any revision to the Code.
47. Most firms stated that their policies allow the provision of non-audit services to audit or assurance clients, and comply with the Code and the national requirements.
48. Two professional organizations representing SMPs also responded to the fees questionnaire.⁴² Both these respondents noted that the IFAC Global SMP Surveys have consistently found that experiencing pressure to lower fees is one of the top challenges facing SMPs. However, both believe the Code establishes sufficient and appropriate provisions to help professional accountants and firms deal with threats. They both recommended the IESBA consider:
- Enhancing its outreach activities to educate key stakeholders about how the Code deals with the issues.
 - Producing practical guidance and case studies as part of the IESBA's roll-out initiatives relating to the new Code.

⁴⁰ BlackRock Asset Management

⁴¹ Council of Institutional Investors

⁴² European Federation of Accountants and Auditors for SMEs (EFAA), and IFAC Small and Medium Practices Committee (SMPC)

*Summary of IFAC Member Bodies' (MBs) Responses*⁴³

49. In addition to the common questions, the MBs were asked about the regulatory requirements in their jurisdictions related to the level of fees and non-audit services, and also about their experiences and concerns relating to fee-related matters.
50. All MBs agreed that the level of fees charged by auditors could create threats to compliance with the fundamental principles and to independence. They were of the view that a low level of fees could affect audit quality, although no evidence from audit inspections or investigations were provided.
51. Most MBs indicated some concerns related to the low level of fees. A few MBs reported that despite the introduction of requirements that have resulted in more time spent on an audit, there was no corresponding increase in fees.⁴⁴ A few MBs were concerned about audit fee pressure that has noticeably increased following the introduction of mandatory audit firm rotation in the EU,⁴⁵ and that a low level of fees charged might lead to an increase of the audit market concentration and to competitive disadvantages for SMPs.⁴⁶ A few MBs reported that they had concerns on the low level of the fees and are currently developing or have already implemented guidelines or scales to standardize audit fees.⁴⁷
52. Despite their concerns, MBs generally stated that the provisions of the Code are sufficient and that the current safeguards are enough to address threats. They mainly suggested further strengthening the application of the current provisions of the Code by promoting better implementation and raising awareness. In general, respondents considered that the IESBA's role is to be a strong advocate on the subject, working closely with professional bodies and regulators, and providing guidance on this issue. The MBs also highlighted the important role of audit committees and transparency in fee-related matters.
53. Regarding national requirements, many MBs reported that in their jurisdictions, rules and regulations related to the level of fees are not more stringent than the Code. Respondents from EU member countries referred to the new European Audit Framework that differs from the Code and is more stringent in some instances, such as the introduction of a fee cap with respect to non-audit services. Others stated that in some jurisdictions, there are fee-related requirements addressing the role of TGWG and disclosure. To the question of whether there are specific regulatory provisions that apply to the level of fees charged for non-audit services provided to audit and assurance clients, some MBs from EU countries as well as a few from other jurisdictions⁴⁸ gave references to the prohibition on some non-audit services to assurance clients.
54. Accountancy Europe (AE) also responded to the fee questionnaire. AE suggested the IESBA not intervene in price setting, but that the IESBA could emphasize the need for adequate

⁴³ Certain IFAC Member Bodies (e.g., American Institute of Certified Public Accountants (AICPA), Japanese Institute of Certified Accountants (JICPA), Hong Kong Institute of Certified Public Accountants (HKICPA), and Wirtschaftsprüferkammer (WPK)) also hold the dual role of ethics standard setter in their respective jurisdictions.

⁴⁴ HKICPA, JICPA

⁴⁵ Institute der Wirtschaftsprüfer (IDW)

⁴⁶ WPK

⁴⁷ Institute of Certified Public Accountants of Kenya (ICPAK), Iranian Association of Certified Public Accountants (IACPA), Institute of Chartered Accountants of India (ICAI)

⁴⁸ AICPA, ICAI, Ordre des Experts Comptables et Financiers de Madagascar (OECFM)

resources to perform a high-quality engagement in compliance with the necessary existing IAASB standards. AE believes that the current provisions and principles in the Code are appropriate, and the Code should be kept principles-based. Therefore, it suggested that only better guidance on how to assess threats and apply safeguards should be considered as a potential enhancement. It also suggested the IESBA to take into account the fee-related regulations in other jurisdictions, especially the EU framework, and avoid adding another layer of requirements that may not be compatible with national requirements.

Recent Studies and Articles

55. Board participants also provided the WG with recent articles and publications on fee-related issues from different jurisdictions. The WG considered the main findings and other pertinent data included in these documents, noting that these articles may not be representative of the relevant countries and do not cover all markets and jurisdictions.
56. A study published in 2017,⁴⁹ mainly from the perspective of the US Public Company Accounting Oversight Board (PCAOB), investigated whether audit offices respond to audit fee pressure by increasing their focus on non-audit services, and the combined effect of audit fee pressure and increased focus on non-audit services on audit quality. The study found a positive association between audit fee pressure and changes in non-audit services for some audit offices. It also reported increased rates of client misstatement among audit offices that increase focus on non-audit services in the presence of audit fee pressure compared to audit offices that do not. Overall, the research provided evidence that audit offices' provision of additional non-audit services in the presence of fee pressure is an important dimension to consider when examining the effects of declining audit fees on audit quality.
57. Audit Analytics published a study in December 2017 that analyzes audit fee and non-audit fee trends based on fee data disclosed by US SEC registrants in electronic filings from 2002 to 2016. The analysis concentrated on fees paid and disclosed by accelerated and large accelerated filers.⁵⁰ The report shows that during calendar year 2002, non-audit fees (including audit related) represented 51.5% of the total fees paid to independent auditors by the 2,034 accelerated filers that comprise the research population of the analysis. For the next three years, non-audit fees declined steadily and markedly as a percentage of total fees to a value of 21.5% in 2005. At this point, the percentage leveled off to values between 20% and 22% for the following eleven years. The value of 21.0% for 2016 is the lowest since 2009. Prior to 2016, non-audit fees (including audit related) equaled about 22% of total fees for the six years between 2010 and 2015.

⁴⁹ Beardsley, Erik and Lassila, Dennis R. and Omer, Thomas C., *How Do Audit Offices Respond to Audit Fee Pressure? Evidence of Increased Focus on Non-audit Services and Their Impact on Audit Quality* (December 1, 2017). Contemporary Accounting Research, Forthcoming. Available at SSRN: <https://ssrn.com/abstract=2433048> or <http://dx.doi.org/10.2139/ssrn.2433048>

⁵⁰ An accelerated filer is a company whose public float (as opposed to market capitalization) is \$75 million or more but less than \$700 million as of the last day of their second quarter. If the value reaches \$700 million, the company becomes a large accelerated filer. Once a registrant becomes an accelerated filer, it will not lose this status unless its float drops below \$50 million.

58. In March 2018, Accountancy⁵¹ published an article relating to FTSE 100⁵², FTSE 250⁵³ and AIM 100⁵⁴ auditors focusing on audit fees, non-audit fees, tender activity and engagement tenures for audits of listed companies in the UK. The analysis showed that the value of the FTSE 100 audit market – which is dominated by the Big Four – has increased significantly and that there has been no downward pressure on audit fees. On average, new auditors were charging 5 % less than the previous incumbent when there has been a change in auditor. However, more often than not, there is an increase in fees in the second year of new auditors. The average three-year ratio of non-audit to audit fees stands at 38 % while in 2016 the ratio was 45 %.
59. The audit market of the FTSE 250 experienced an unprecedented level of tendering activity due to the application of the rules of new EU audit framework. Meanwhile, the survey showed that the Big Four firms dominate the FTSE 250 market, with 96 % of the audits. In this market, the survey highlighted that while on average there is a little movement in audit fees between the last year of the outgoing auditor and the first year of the incoming auditor, accounting firms generally increase their fees by 26 % in the second year of the new audit engagement. Of the 18 FTSE 250 companies whose latest annual reports represented the second year under a new auditor, only two said the fees had remained the same. Non-audit services fees to audit fees stood at 39 % in this market, and the total income from non-audit services from this market was down 17 % comparing against the previous year, which reflected well the changing regulatory environment.
60. The AIM 100 entities are audited by more different audit firms, but the Big Four and BDO and Grant Thornton still account for 92 % of audits. Since the regulatory environment is much lighter than for the FTSE 350, the ratio of non-audit services fees is much different in this market comparing against the other two. The ratio of non-audit services to audit fees is 62 % for companies in the AIM 100. According to the article, this high number is more a reflection of the nature of these businesses rather than any failure in corporate governance.
61. Another research paper⁵⁵ which the WG reviewed investigated the relationship between audit fees and audit quality in the Brazilian market. The authors used a sample of 300 firms listed on the BM&FBovespa,⁵⁶ in the period from 2009 to 2012.⁵⁷ According to the study, the results confirmed the hypothesis that audit firms that charge less for their service tend to be more relaxed regarding earnings management by their client companies.⁵⁸

⁵¹ <https://www.accountancydaily.co/exclusive-download-ftse-350-aim-100-auditors-survey>
0?utm_campaign=9252331_Accountancy%2012%20March&utm_medium=email&utm_source=CCH%20Magazines&dm_j=B5X,5IB57,4PX5JV,LD258,1

⁵² The FTSE 100 is an index composed of the 100 largest companies listed on the London Stock Exchange.

⁵³ The FTSE 250 Index is a capitalisation-weighted index consisting of the 101st to the 350th largest companies listed on the London Stock Exchange.

⁵⁴ The FTSE AIM 100 Index is a stock market index of the top 100 companies on the London Stock Exchange's Alternative Investment Market weighted by market capitalisation.

⁵⁵ Arquimedes Jesus Moraes (Universidade Vila Velha) and Antonia Lopo Martinez (Fucape Business School) - Audit Fees and Audit Quality in Brazil, Conference Paper, July 2015

⁵⁶ The BM&F BOVESPA is a stock exchange located at São Paulo, Brazil.

⁵⁷ Using data gathered from the Economática database and the website of the Brazilian Securities Commission

⁵⁸ The main findings of the research are the following:

- Confirmation of the expected positive relation between abnormal audit fees and positive discretionary accruals.

IV. Key Issues and WG Proposals

62. Based on its analysis of the information gathered from the fact finding activities, the WG has summarized the following findings and developed the recommended way forward for the IESBA's consideration.

Level of Audit Fees

Low fees

63. As most concerns identified from the fact finding activities on the level of fees relate to low fees or downward fee pressure, the WG focused its analysis accordingly. (The discussion on a high level of fees as a proportion of the total fees received by the firm is mostly covered under the focus area of relative size of fees).
64. The Code provides that a professional accountant might quote whatever fee is considered appropriate and that quoting a fee lower than another accountant is not in itself unethical. However, it makes clear that the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.⁵⁹
65. From the benchmarking review, the WG observed that some jurisdictions have standards, rules or regulations on the level of fees to ensure that the fee quoted is appropriate to perform the engagement according to the standards and national requirements.
66. The WG noted that UK FRC's Ethical Standard includes a requirement related to the engagement partner's responsibility for the fee charged. Specifically, the Ethical Standard requires that the engagement partner be satisfied and able to demonstrate that the engagement has been assigned sufficient partners and staff with appropriate time and skill to perform the engagement in accordance with all applicable standards, irrespective of the engagement fee to be charged.⁶⁰
67. Respondents in some jurisdictions have reported that professional bodies in their jurisdictions have adopted recommendations for a minimum scale for audit fees at the national level mainly to support SMPs in the audit market.⁶¹ The WG observed, however, that other jurisdictions restrict the introduction of minimum levels of fees due to the anti-competition laws and regulations.
68. At the March 2018 CAG meeting, some CAG Representatives also raised similar concerns about the viability of setting a minimum level of audit fees. It was noted in particular that the inclusion of a minimum level of fees, even in global standards such as the Code, could be viewed negatively by anti-trust authorities. In addition, CAG Representatives also noted that

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- Confirmation of the expected positive relation between non-audit fees and positive discretionary accruals.
 - Confirmation of the expected positive relation between the variable "Big Four Firms" and the amount paid to the auditor.
 - Confirmation of the expected negative relation between the cash flow of the audited company and earnings management.

⁵⁹ Paragraph 330.3. A2

⁶⁰ UK FRC, Ethical Standard, paragraph 4.1

⁶¹ India, Iran, Malaysia

the “right” level of fees and ratio of non-audit services to audit fees depends on a number of factors such as nature of the industry, the maturity and structure of the market, and the expertise of the firm. It was also argued that it is difficult to rationalize a right level and such a step would be a move away from the principles-based approach of the Code.

69. In the light of the above, the WG does not consider it feasible to prescribe a minimum level of fees at a global level.
70. Some respondents have expressed concerns about audit fee pressure that has noticeably increased following the introduction of mandatory audit firm rotation in their countries.⁶² Another respondent noted that although recently introduced new requirements (such as the disclosure of key audit matters under revised auditor reporting standards) have resulted in more time being spent on an audit, audit fees have not increased accordingly.⁶³
71. While there is a perception that downward pressure on audit fees affects mainly SMPs (and the European responses to the 2016 IFAC Global SMP Survey also revealed pressure to lower fees was one of the top three challenges faced by European SMPs), the EFAA and IFAC SMP Committee believe that the Code establishes sufficient provisions in relation to the level of fees. They, however, suggest consideration of enhancement to the application of the Code through awareness raising and education, and the development of practical guidance and case studies as part of the IESBA’s roll-out initiatives for the new Code.
72. Stakeholders also suggested in their responses to the questionnaire that the IESBA should consider the role of audit committees and those taking part in decisions concerning the appointment and reappointment of auditors. Many of those who consider that the Code has sufficient provisions to deal with fee pressure suggested that the IESBA enhance the application of the current provisions by raising awareness of the risks related to fee pressure. The WG considered that fee-related issues could be also addressed by raising awareness among not only professional accountants in practice but also PAIBs, since TCWG often include PAIBs subject to the Code
73. The WG also took into consideration the firms’ views that it is important to consider the basis or motivation behind any proposed reduction in fees. For example, an audit firm may be able to propose a fee that is lower than charged by the incumbent auditor by taking account of expected technological developments in its approach to the conduct and methodology of the audit that will achieve savings over time.

Recommended way forward

According to the outcome of the fact finding, downward pressure on audit fees and “low balling” are of concern for many stakeholders. Such pressure creates threats to compliance with the fundamental principles, particularly the principle of professional competence and due care, may therefore adversely impact audit quality

In considering whether further enhancement to the Code might be appropriate, the WG took into consideration the difficulty of setting the level of audit fees at a global level as the right level of fees will vary from jurisdiction and jurisdiction and depend on a myriad of factors. Further, there is a real risk that such a standard will be deemed as breaching anti-competition laws in many jurisdictions.

⁶² IDW, AE

⁶³ HKICPA

However, the WG is of the view that it would be in the public interest to strengthen the Code to convey clearly that the fees charged must not be allowed to impair the auditor's ability to perform the audit engagement according to standards and regulations. This principle should apply not only in relation to audit engagements but also in relation to other assurance and non-assurance engagements.

The IESBA should therefore consider:

- **Strengthening Section 330 to require that the level of fees quoted must not be allowed to impair a professional accountant's ability to perform the professional services in accordance with professional standards and regulatory requirements.**
- **Introducing provisions making it clearer that it is the engagement partner's personal responsibility to address any threats presented by the level of fees, such as being able to demonstrate that sufficient resources have been assigned to the engagement.**
- **Whether there is a case for enhancing the Code in relation to the responsibility of PAIBs when they play a role in appointing or reappointing auditors.**
- **Updating the January 2017 staff publication on fee pressure to include revisions to safeguards, update references to the new Code, and inform stakeholders of any ongoing project or initiative.**

Audit quality

74. The WG noted that there are reasonable perceptions that downward pressure on audit fees adversely affects audit quality.
75. There are other articles and studies (as noted in Section III above) that refer to evidence regarding the impact of fee pressure (and a corresponding increase in focus by firms on the provision of non-audit services) on audit quality.
76. Some stakeholders noted that professional accountants should provide the same high level of audit quality regardless of the fee charged. Therefore, it was argued that:
 - Appropriate application of professional standards should be enforced and that the IESBA should raise awareness of all stakeholders that the audit is not a commodity.
 - These standards represent an important safeguard against the threat to professional competence and due care because they must be complied with whatever the fee charged.

Stakeholders suggested that the IESBA provide guidance and education to all stakeholders, including TGWG, on the relevance and importance of fee pressure.

77. These concerns related specifically to audit quality, cannot be dealt with only as an ethics issue. The WG believes that positive change will only be achieved if initiatives are supported by appropriate education and training developments. This will require coordination in particular with the IAASB and the International Accounting Education Standards Board (IAESB).

Recommended way forward

Based on the input from regulators and other stakeholders, there appears to be reasonable perceptions that fee pressure issues could adversely impact audit quality as well as create a threat to compliance with the fundamental principles.

The WG believes that by enhancing the Code through the recommended way forward above, the IESBA could do its part to address the audit quality issues raised by respondents (particularly SMPs) from an ethics perspective.

Fee Dependency

78. Parts 4A and 4B of the Code contain application material that deals with the relative size of fees from an audit or assurance client at the firm, office and partner level. There are also requirements related to the relative size of fees from audit clients that are PIEs. (See Section II above.)
79. The WG found from the G-20 benchmarking that most observed jurisdictions have rules or standards relating to relative size of fees that align with the provisions of the Code. A few jurisdictions, however, have more stringent rules on the percentage of the revenue generated from PIE clients as well as revenue generated from non-PIE clients.⁶⁴
80. The new EU Regulation is in line with the Code, providing that when the total fees received from a PIE in each of the last three consecutive financial years are more than 15% of the total fees received by the statutory auditor or the audit firm, in each of those financial years, such a statutory auditor or audit firm shall disclose that fact to the audit committee and discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats. The Regulation also requires the audit committee to consider whether the audit engagement should be subject to an engagement quality control review by another statutory auditor or audit firm prior to the issuance of the audit report. Where the fees received from such a PIE continue to exceed 15% of the total fees received by such a statutory auditor or audit firm, the Regulation requires the audit committee to decide on the basis of objective grounds whether the statutory auditor or the audit firm or the group auditor of such an entity or group of entities may continue to carry out the statutory audit for an additional period, capped at no more than two years. The Regulation sets out that EU Member States may apply more stringent requirements.
81. The WG further observed that the UK FRC's Ethical Standard includes stricter provisions regarding the limit of total fees from a PIE client. It specifies that where it is expected that the total fees from a PIE exceed 10 % of the annual fee income on a regular basis, the engagement should not be accepted (rather than allowing the auditor to consider safeguards, as it is in the Code).⁶⁵
82. There are also more stringent requirements for non-PIEs in the UK compared with the Code. The UK FRC's Ethical Standard requires in case of non-PIEs that where it is expected that the total fees for services receivable will regularly exceed 15% of the annual fee income of the

⁶⁴ UK, Germany, Netherlands

⁶⁵ UK FRC Ethical Standard, paragraph 4.42

firm, the firm shall not act as the provider of the engagement for that entity and shall either resign or not stand for reappointment, as appropriate.⁶⁶

83. Some MBs also indicated in response to the fee questionnaire that in their jurisdictions there are more stringent rules for fee dependency than the provisions of the Code. One MB⁶⁷ reported that in its jurisdiction, the 15 % threshold is applicable to all assurance engagements, instead of audits only, and to both PIEs and non-PIEs.⁶⁸ Another MB⁶⁹ indicated that in its jurisdiction, the auditor cannot perform the audit engagement if the total fees received from a non-PIE in each of the last five consecutive financial years reach more than 30 % of the total fees received by the statutory auditor.

Recommended way forward

Standards or regulation dealing with fee dependency at office and partner levels and the percentage of total revenue from a PIE audit client in many jurisdictions, including the EU, align with the Code. There is little research or evidence to suggest that changing the threshold percentage of the revenue generated from PIE clients will reduce threats to independence.

The WG also did not gather any information that would support the need to enhance the Code relating to fee dependency at the office or partner level.

Based on the outcome of the fact finding activities, the IESBA should consider, in light of the approaches taken by some jurisdictions to addressing the fee dependency issue, the opportunity for enhancing the application material in the Code in relation to fee dependency, including whether there is a case for having a threshold for non-PIEs.

Ratio of Non-audit Services Fees to Audit Fees

84. Prof. Hay made the observation in his review of academic and other literature that numerous studies have found evidence of loss of independence in appearance, particularly from the investor perspective, when audit firms are providing non-audit services to their audit clients.
85. The WG considered the measures G-20 jurisdictions have adopted to deal with the threats to independence in appearance created by a high ratio of non-audit services fees to audit fees.
86. The WG found that in many G-20 jurisdictions there are rules, mainly for PIEs, to disclose fee-related information and to make publicly available all types and amounts of fees charged by

⁶⁶ UK FRC Ethical Standard, paragraph 4.43

⁶⁷ Royal Netherlands Institute of Chartered Accountants

⁶⁸ Further more stringent rules related to fee dependency in the Netherlands:

- After two consecutive years always a pre-issuance review instead of the choice between a pre-issuance and a post-issuance review.
- If audit of PIE: in fourth year discussion with audit committee whether the audit can be continued and if so, what other safeguards should be taken beside the pre-issuance re-view. If continuing, only after written consent of the audit committee.
- If audit of PIE: after max 5 consecutive years over 15%: engagement should be ended instead of a pre-issuance review each year from third year on.

⁶⁹ WPK

the auditor. In the case of the EU, auditors of PIEs are required to make public their revenues generated from audit or non-audit services.

87. Many respondents suggested how the IESBA could enhance the role of TCWG to address fee-related issues. The WG noted that the Code and, in case of the listed entities, ISA 260 include provisions related to communication with TCWG. As part of this communication, ISA 260 requires that the fees be allocated to categories that are appropriate to assist TCWG in assessing the effect of non-audit services on the independence of the auditor.
88. Relevant to the IESBA's consideration is whether to include the above referenced ISA 260 requirements in the Code, or a cross-reference to ISA 260. In addition, with regard to independence, the Code generally applies the same requirements to both audits and reviews. Accordingly, if those requirements are included in the Code, consideration will need to also be given to their applicability for other assurance engagements.
89. The WG also noted that some in some jurisdictions, the provision of non-audit services is subject to the pre-approval of the audit committees. IOSCO believes the Code should require the auditor to seek approval in advance from TCWG for all non-audit services. The EU Regulation also requires prior approval of the audit committee for the provision of non-audit services to the audit client. The PIOB also suggested⁷⁰ that non-audit services provided by an auditing firm to its audit clients should be approved by the audit committee.
90. IOSCO also noted that in some jurisdictions, there is also a requirement for the auditor to assess the nature, size and cumulative effect of threats to independence when the auditor is providing multiple non-audit services to the audit client, prior to the acceptance of those services. IOSCO believes the IESBA should also consider a similar requirement in the Code.
91. The WG noted that the Code already contains provisions on the evaluation of the cumulative effect of the provision of multiple non-assurance services. The Code sets out that "a firm or network firm might provide multiple non-assurance services to an audit client and in these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats."⁷¹
92. A recently introduced measure to address threats to independence in appearance in some G-20 countries is the fee cap adopted by the EU. The EU Regulations prescribes that, in the case of PIEs, the total fees from the allowed non-audit services paid to the audit firm by the audited entity has to be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the audit of the audited entity (where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings).
93. While the cap is a very transparent and an absolute delineation to deal with the perception of independence being impaired, the WG considered that other less burdensome and more flexible measures could also address threats without fixing absolute limits as a ratio. In this regard, the WG also took into consideration using a fee cap not as a limit to the further provision of non-audit services, but as a trigger for a further evaluation or reassessment of threats to independence, similar to the approach the Code takes in relation to the fee dependency issue with respect to PIE audit clients. The WG also considered the views expressed by a firm⁷² that,

⁷⁰ [Public interest issues under current PIOB scrutiny](#): IESBA projects, February 2018

⁷¹ Paragraph 600.5. A4

⁷² Deloitte

while the level of non-audit fees in relation to the audit fees for a particular client might raise concerns from the standpoint of a reasonable and informed third party, this matter should not be viewed in purely quantitative terms, as the nature of the non-audit service is more relevant.

Recommended way forward

It is broadly supported both by feedback from stakeholders and by Dr. Hay's review of academic research that a high ratio of non-audit services fees to audit fees creates threats to independence in appearance. The WG noted, in this regard, that independence in appearance is an integral part of the concept of independence in the Code. However, the Code does not address threats to independence in appearance under these particular circumstances.

Based on the information gathered, the WG has discussed the following as options that the IESBA may further explore:

1. Requiring an assessment of the nature, frequency, value and cumulative effect of non-audit services on independence when providing multiple non-audit services to audit clients.
2. Considering the role of disclosure of fee-related information to stakeholders, including public disclosure.
3. Considering enhanced provisions relating to communication with TCWG, including seeking pre-approval of non-audit services, as was also suggested by the PIOB.
4. Applying a cap on the level of fees for non-audit services in relation to audit fees, as a trigger to require the professional accountant to reassess the threats to independence.
5. Hard-wiring in the Code a cap on the level of fees for non-audit services in relation to audit fees, and whether caps should be set in relation to both PIEs and non-PIEs. In this regard, the WG noted that the current focus of Non-assurance Services (NAS) Working Group is on PIEs only.

The WG recommends that:

- **The NAS Working Group take into consideration the relevant issues and analysis in this paper, including the options noted above, as it develops its thinking on the issues in the NAS initiative (including discussion with stakeholders at the global roundtables scheduled in Washington DC, Paris and Tokyo in June and July 2018); and**
- **The IESBA determine in due course how this work should be progressed.**

Business Model

94. The business model issue remains a concern for regulators, PIOB and other stakeholders in relation to its potential impact on audit quality and threats to compliance with the fundamental principles and to independence. The PIOB stated:

“As shown in several researches, the share of revenue from consulting services is increasing in relation to those from audit. Accountancy firms may devote less, and lower quality, resources

to audit activities if this trend continues. The level of fees in audit and in consulting, and relative revenue shares, should be looked into to ensure high quality audits.”⁷³

During the March 2018 CAG meeting, the PIOB representative noted it is the PIOB’s view that the IESBA’s deliberation on fee-related matters must also include a discussion on firms’ business model.

95. Recently, the UK FRC has called for inquiry into whether the Big Four firms should be broken up, a move reported as being aimed at ending their dominant position in the market for the biggest listed companies in the UK.⁷⁴
96. According to Prof. Hay’s summary of academic research, there is some evidence that the provision of audit services by a firm that also has a significant non-audit services business might create threats to compliance with the fundamental principles, especially the principle of professional competence and due care. However, that evidence is inconclusive.
97. The WG found, based on the evaluation of the G-20 benchmarking and the responses to the questionnaire, that there is no jurisdiction that has rules or standards to deal with possible threats created by the provision of audit services by a firm that also has a significant non-audit services business.
98. The WG also noted the general view of the firms that responded to the questionnaire that providing non-audit services, whether to audit clients or non-audit clients, enables audit firms to develop knowledge and skills that are needed to audit complex companies. The firms also believe that this contributes to the success of a multi-disciplinary professional service model, which helps the long term viability of firms and allows for funding of investments, including technological advances, which ultimately support audit quality.

Recommended way forward:

To address this complex and multi-faceted issue effectively requires a multi-stakeholder approach. The topic cannot be appropriately addressed solely by the IESBA.

As part of this, the WG recommends that the IESBA discuss with the IAASB how the two standard-setting boards might approach this issue in a coordinated way.

Notwithstanding dialogue among stakeholders, the WG is of the view that some of the other measures it has proposed for IESBA consideration, if adopted by the Board, might address, in part, some of the concerns raised in relation to business model issue.

Fee-related Safeguards

99. Based on its review of the fee-related provisions in the extant Code, IOSCO made the following comments regarding safeguards with respect to the level of fees:
 - The Code should include provisions that address the threat such as not accepting, or resigning from, the audit engagement, and not pursuing non-audit fees to compensate in situations where the fee quoted is so low that it would be difficult for an audit

⁷³ [Public interest issues under current PIOB scrutiny](#): IESBA projects, February 2018

⁷⁴ Financial Times, March 16, 2018

engagement to be performed in accordance with the applicable technical and professional standards.

- The safeguards provided by the extant Code to address threats created by the level of fee quoted are simply “good practices.”
- The safeguards on using a professional accountant who was not a member of the assurance team to mitigate the threat are also inappropriate since the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors.
- Safeguards in relation to contingent fees should also be used for addressing threats to independence created by the level of fees.

100. In considering IOSCO’s feedback, the WG noted that the revised provisions in Parts 3, 4 and 4B of the Code have addressed some of the concerns raised by IOSCO. In particular:

- The conceptual framework has been enhanced in the Code.
- The Code contains enhanced application material relating to the level of fees, including a list of relevant factors to consider in evaluating the level of threats as well as examples of actions that might be safeguards.⁷⁵
- The Code defines and applies the new term “appropriate reviewer” instead of a professional accountant: “An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.”⁷⁶ In that sense, the appropriate reviewer is not necessarily a staff member and so might not share the interest of the firm.

101. Another regulator suggested⁷⁷ that the IESBA work with members of the SMPC to develop further guidance on the implementation of safeguards for smaller firms addressing these types of fee issues.

Recommended way forward

While the new Code has addressed some of the comments raised by IOSCO, **the WG is of the view that there is a case for the IESBA to undertake a specific review of the relevant fee-related safeguards to fully address all the comments raised by IOSCO.**

The WG recommends that the IESBA consider the timing of such a review as part of its finalization of the Strategy and Work Plan 2019-2023.

V. Conclusion

102. As recently stated by the PIOB,⁷⁸ it believes there is sufficient concern among stakeholders that a comprehensive IESBA project on fees be established. After due consideration of the

⁷⁵ Paragraph 410.3

⁷⁶ Glossary of the Code

⁷⁷ NASBA

⁷⁸ [Public interest issues under current PIOB scrutiny](#): IESBA projects, February 2018

information gathered, the WG also has formed the view that a project should be established to address some of the fee-related matters as highlighted in this paper.

103. Subject to the views expressed by the Board during the June 2018 IESBA meeting on whether to proceed with a Fees project, the WG will develop a project proposal for the Board's consideration at the September 2018 meeting.

Appendix I

Table of Concordance: Extant Code to Restructured Code
Fee-related Provisions

Provision of Extant Code	Provision of Restructured Code
<i>Part B – Professional Accountant in Public Practice, Section 240 - Fees and Other Type of Remunerations</i>	<i>Professional Accountants in Public Practice, Section 330 - Fees and Other Types of Remuneration</i>
	<p>330.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.</p> <p>330.2 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. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.</p>
<p>240.1 When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.</p>	<p>330.3 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.</p> <p>330.3 A2 A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.</p>
<p>240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat shall be evaluated and safeguards applied when</p>	<p>330.3 A3 Factors that are relevant in evaluating the level of such a threat include:</p> <ul style="list-style-type: none"> • Whether the client is aware of the terms of the engagement and, in particular,

Provision of Extant Code	Provision of Restructured Code
<p>necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee; or • Assigning appropriate time and qualified staff to the task. 	<p>the basis on which fees are charged and which professional services the quoted fee covers.</p> <ul style="list-style-type: none"> • Whether the level of the fee is set by an independent third party such as a regulatory body. <p>330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:</p> <ul style="list-style-type: none"> • Adjusting the level of fees or the scope of the engagement. • Having an appropriate reviewer review the work performed
<p>240.3 Contingent fees are widely used for certain types of non-assurance engagements. They may, however, create threats to compliance with the fundamental principles in certain circumstances. They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:</p> <ul style="list-style-type: none"> • The nature of the engagement. • The range of possible fee amounts. • The basis for determining the fee. • Whether the outcome or result of the transaction is to be reviewed by an independent third party. 	<p>330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.</p> <p>330.4 A2 Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The nature of the engagement. • The range of possible fee amounts. • The basis for determining the fee. • Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration. • Quality control policies and procedures. • Whether an independent third party is to review the outcome or result of the transaction. • Whether the level of the fee is set by an independent third party such as a regulatory body.
<p>240.4 The significance of any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to</p>	<p>330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:</p>

Provision of Extant Code	Provision of Restructured Code
<p>an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Advance written agreement with the client as to the basis of remuneration; • Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration; • Quality control policies and procedures; or • Review by an independent third party of the work performed by the professional accountant in public practice. 	<ul style="list-style-type: none"> • Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant. • Obtaining an advance written agreement with the client on the basis of remuneration.
n/a	<p>330.4 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in <i>International Independence Standards</i>.</p>
<p>240.5 In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (for example, a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.</p> <p>240.6 A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee also creates a</p>	<p>330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:</p> <ul style="list-style-type: none"> • A fee paid to another professional accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant. • A fee received for referring a continuing client to another professional accountant or other expert where the existing accountant does not provide the specific professional service required by the client. • A commission received from a third party (for example, a software vendor)

Provision of Extant Code	Provision of Restructured Code
self-interest threat to objectivity and professional competence and due care.	in connection with the sale of goods or services to a client.
<p>240.7 The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred; • Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice; or • Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client. 	<p>330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:</p> <ul style="list-style-type: none"> • Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat. • Disclosing to clients any referral fees or commission arrangements paid to, or received from, another professional accountant or third party for recommending services or products might address a self-interest threat.
240.8 A professional accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 240.5-240.7 above.	330.6 A1 A professional accountant may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.
Part B – Professional Accountant in Public Practice, Section 290 – Independence – Audit and Review Engagements	International Independence Standards Part 4A – Independence for Audit and Review Engagements
n/a	410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
290.215 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-	410.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application

Provision of Extant Code	Provision of Restructured Code
<p>interest or intimidation threat. The significance of the threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The operating structure of the firm; • Whether the firm is well established or new; and • The significance of the client qualitatively and/or quantitatively to the firm. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Reducing the dependency on the client; • External quality control reviews; or <p>Consulting a third party, such as a professional regulatory body or a professional accountant, on key audit judgments.</p>	<p>material relevant to applying the conceptual framework in such circumstances.</p> <p>410.3 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.</p> <p>410.3 A2 Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The operating structure of the firm. • Whether the firm is well established or new. • The significance of the client qualitatively and/or quantitatively to the firm. <p>410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.</p>
<p>290.216 A self-interest or intimidation threat is also created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual office of the firm. The significance of the threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The significance of the client qualitatively and/or quantitatively to the partner or office; and • The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p>	<p>410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.</p> <p>410.3 A5 Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The significance of the client qualitatively and/or quantitatively to the partner or office. • The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client. <p>410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:</p>

Provision of Extant Code	Provision of Restructured Code
<ul style="list-style-type: none"> Reducing the dependency on the audit client; Having a professional accountant review the work or otherwise advise as necessary; or Regular independent internal or external quality reviews of the engagement. 	<ul style="list-style-type: none"> Increasing the client base of the partner or the office to reduce dependence on the audit client. Having an appropriate reviewer who did not take part in the audit engagement review the work.
<p>290.217 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:</p> <ul style="list-style-type: none"> Prior to the issuance of the audit opinion on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or After the audit opinion on the second year's financial statements has been issued, and before the issuance of the audit opinion on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional regulatory body performs a review of the second year's audit that is 	<p>R410.4 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:</p> <p>(a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and</p> <p>(b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:</p> <p>(i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or</p> <p>(ii) After the audit opinion on the second year's financial statements has been issued, and before the audit opinion being issued on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the</p>

Provision of Extant Code	Provision of Restructured Code
<p>equivalent to an engagement quality control review ("a post-issuance review").</p> <p>When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p>	<p>financial statements, or a professional body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").</p> <p>R410.5 When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.</p> <p>R410.6 If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:</p> <ul style="list-style-type: none"> (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and (b) Comply with paragraphs R410.4(b) and R410.5.
<p><i>Part B – Professional Accountant in Public Practice, Section 291 – Independence – Other Engagements</i></p>	<p><i>International Independence Standards Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements</i></p>
<p>n/a</p>	<p>905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.</p>
<p>n/a</p>	<p>905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.</p>
<p>291.148 When the total fees from an assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client and concern about losing the client creates a self-</p>	<p>905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and</p>

Provision of Extant Code	Provision of Restructured Code
<p>interest or intimidation threat. The significance of the threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The operating structure of the firm; • Whether the firm is well established or new; and • The significance of the client qualitatively and/or quantitatively to the firm. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Reducing the dependency on the client; • External quality control reviews; or <p>Consulting a third party, such as a professional regulatory body or a professional accountant, on key assurance judgments.</p>	<p>concern about losing the client create a self-interest or intimidation threat.</p> <p>905.3 A2 Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The operating structure of the firm. • Whether the firm is well established or new. • The significance of the client qualitatively and/or quantitatively to the firm. <p>905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.</p>
<p>291.149 A self-interest or intimidation threat is also created when the fees generated from an assurance client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional professional accountant who was not a member of the assurance team review the work or otherwise advise as necessary.</p>	<p>905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.</p> <p>905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:</p> <ul style="list-style-type: none"> • Increasing the client base of the partner to reduce dependence on the assurance client. • Having an appropriate reviewer who was not an assurance team member review the work.

Appendix II

List of Respondents to IESBA 2017 Fees Questionnaires

#	Abbrev.	Respondent (73)
Investors and other users of Financial Information (2)		
1.	BR	BlackRock Asset Management
2.	CII	Council of Institutional Investors
Preparers (2)		
3.	MRC	MJ Raiyari Company
4.	TE	Tarina Els
Those Charged With Governance (TCWG) (3)		
5.	A	Anonymous Audit Committee Member
6.	AM	Alice McCleary
7.	NG	Neil Gaskil
Regulators and Oversight Authorities (Regulators) (4)		
8.	UKFRC	Financial Reporting Council (UK)
9.	IRBA	Independent Regulatory Board for Auditors (South Africa)
10.	IOSCO	International Organization of Securities Commissions
11.	NASBA	National Association of State Boards of Accountancy
National Standard Setters (NSS) (2)		
12.	APESB	Accounting Professional and Ethical Standard Board (Australia)
13.	NZAuASB	New Zealand Auditing and Assurance Standards Board
Firms, Including SMPs (36)		
14.	AUREN	Auren International
15.	Baker Tilly	Baker Tilly Argentina
16.	Baker Tilly	Baker Tilly Chile
17.	Baker Tilly	Baker Tilly Columbia
18.	Baker Tilly	Baker Tilly Venezuela
19.	Baker Tilly	Baker Tilly Virchow Krause, LPP (US)
20.	BDO	BDO International Limited
21.	CA	Capaz Auditors Inc. South Africa
22.	JF Serval	Constantin Groupe Audit Server & Associate
23.	CH	Crowe Horwath International
24.	CHR	Crowe Horwath Romania

#	Abbrev.	Respondent (73)
25.	Deloitte	Deloitte Touche Tohmatsu Limited International
26.	DC	Dailamipour & Co
27.	ES	Ebner Stolz (Member of Nexia International)
28.	EY	Ernst & Young Global Limited
29.	GTIL	Grant Thornton International Ltd.
30.	IECnet	International Eurogroup Consult (network of firms)
31.	JB	Jeanne Botha (Deloitte)
32.	JCK	James Couper Kreston
33.	KI	Kreston International
34.	KI	Kreston Iberaudit
35.	KPMG	KPMG IFRG Limited
36.	LKI	Lund & Keck Inc.
37.	MR	Mario Ranarijesy
38.	Nexia	Nexia International
39.	PO	Pretorius Ouditeure
40.	PWC	PricewaterhouseCoopers International
41.	RChoudhary	Rakesh Choudhary
42.	RSM	RSM International
43.	R & Co	Rymand & Co
44.	SR	Saholinirina Rabarijohn
45.	SMS	San Martin, Suarez y Asociados
46.	SFAI	Santa Fe Associates International*
47.	SPI	Sheldon & Prinsloo Inc.
48.	SR	Sylvia Rndrianiriana
49.	Zeifmans	Zeifmans LLP
Public Sector Organizations (Public Sector) (1)		
50.	AC	Auckland Coucil
IFAC Member Bodies (MBs) (16)		
51.	AE	Accountancy Europe
52.	AICPA	American Institute of Certified Public Accountants
53.	CPA	CPA Australia
54.	HKICPA	Hong Kong Institute of Certified Public Accountants
55.	IDW	Institut der Wirtschaftsprufer
56.	IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren
57.	ICAEW	Institute of Chartered Accountants in England and Wales

#	Abbrev.	Respondent (73)
58.	ICPAK	Institute of Certified Public Accountants of Kenya
59.	IACPA	Iranian Association of Certified Public Accountants
60.	ICAI	The Institute of Chartered Accountants of India
61.	JICPA	Japanese Institute of Certified Accountants
62.	MIA	Malaysian Institute of Accountants
63.	NBA	Royal Netherlands Institute of Chartered Accountants
64.	OECFM	Ordre des Experts Comptables et Financiers de Madagascar
65.	SAICA	South African Institute of Chartered Accountants
66.	WPK	Wirtschaftsprüferkammer
Other Individuals, Academics and Professional Organizations (Others) (7)		
67.	EFAA	European Federation of Accountants and Auditors for SMEs
68.	GHansen	Gaylen Hansen (NASBA past Chair)
69.	SMPC	IFAC Small and Medium Practices (SMPs) Committee
70.	JNdlovu	Jane Ndlovu, University of the Witwatersrand (Academic)
71.	MMI	MMI Holdings Limited (Internal Auditor)
72.	MF	Monica de Freitas, University of Witwatersrand
73.	ROthman	Radia Othman, Massey University (Academic)