



IESBA

## Update on Fees

Chishala Kateka, IESBA Member and  
Fees Working Group Chair

External Presenter, Prof. David Hay  
University of Auckland, New Zealand

IESBA Meeting

December 12-15, 2016

## Overview of the Session

- Receive final report on review of academic and other relevant literature commissioned
- Receive update on regulatory responses within G20
- Exchange views about next steps



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## Fees Initiative – Recap

- Undertake fact-finding re relationship between fees charged by firms and threats to auditor independence and compliance with FPs
  - Review of academic literature and regulatory inspection findings
  - Understand regulatory responses in G20
  - Outreach to various stakeholders, including large firms and SMPs
- Responsive to PIOB call to revisit issues on auditor independence from a broader perspective, including consideration of fee-related issues
- Supported by CAG and other stakeholders

## Areas of Focus – Recap

- Any relationship between fees and threats to independence and compliance with FPs (or reasonable perceptions of such threats)?
  - Level of audit fees for individual audit engagements
  - Relative size of fees to the partner, office or the firm (incl. extent to which partner remuneration depends on fees from a particular client)
  - Ratio of NAS fees to audit fees paid by an audit client
  - Provision of audit services by a firm that also has a significant NAS business





## David Hay

- Professor of Auditing, University of Auckland, New Zealand



## Issues

- Level of audit fees
- Relative size of fees and dependence
- Ratio of non-audit to audit fees
- Audit services by firms that have non-audit service businesses



## Overview

- Risks that are not confirmed by evidence
- Risks that are confirmed by evidence
- Risks where there is mixed evidence



## Concerns

- Lower audit fees after switch
- Non-audit services (NAS) and independence in appearance
- Mixed results:
  - competition;
  - dependence;
  - NAS and independence of mind
  - NAS to non-audit clients



## Issue 1: Level of audit fees

- Level
- New engagements and low-balling



## Issue 2: Relative size of fees and dependence

- High fees and loss of independence – or risk
- Partner income related to clients gained or lost, audit failures
- Dependence at office or partner level



## Issue 3: Ratio of non-audit to audit fees

- Appearance of independence
- Independence of mind
  - Generally
  - Current concerns



## Issue 4: Audit services by firms that have non-audit service business

- Audit firms that provide NAS to non-audit clients
  - Evidence of reduced quality
  - Evidence of reduced independence in appearance
  - Studies are unpublished



## Additional issues

- Other stakeholders
- Processes implemented by firms



## Research suggestions

- More comprehensive meta-analysis
- Investigate mixed results
- Dependence
- Fees and inspection reports
- Non-audit services around the world
- Internal firm data
- Publicizing results of this study



## Issues

- Level of audit fees
- Relative size of fees and dependence
- Ratio of non-audit to audit fees
- Audit services by firms that have non-audit service businesses

## Fees – G20 Benchmarking

- WG undertook a review of laws and regulations relating to fees for about 11 jurisdictions, including EU
- Not all law or regulations may have been considered
  - Information was gathered from key individuals
- Findings summarized, key observations noted, but further analysis needed before forming final conclusions



Fees – G20 Benchmarking

## Ethical Rules and Regulations in Local Jurisdictions

### Level of audit fees for individual audit engagements

- 4 jurisdictions have additional requirements re audit fees and pricing
- Remaining jurisdictions are aligned to the Code

**Canada:** RPC 204.4 (36)

**France:** French Code of Ethics Article 31

**Italy:** Italian Law Article 10 | Italian Auditing Standard 5.8.4

**UK:** ES 4.1 | ES 4.2

### Key Observations

- Qualified engagement team members assigned
- Appropriate time devoted
- Applicable assurance standards, guidelines and QC procedures followed



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Fees – G20 Benchmarking

## Ethical Rules and Regulations in Local Jurisdictions

### Relative size of fees

- 3 countries have additional requirements regarding the relative size of audit fees
- Remaining aligned to standards in the Code

**Australia:** APES 290.217 | AUST 290.217

**Brazil:** CNSP-Resolution 321 | CMN-Resolution 3198

**Germany:** German Commercial Code 319(1)

### Key Observations

- Large proportion of total fees referred from one source
- Total audit fees from audit client cannot be 25% or more of total audit fees
- Earned more than 15% in last 5 years from professional activities at the client

**Note:** Some jurisdictions have disclosure req'ts in securities law re: disclosure of audit and NAS fees (Canada | UK | US)



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## Ethical Rules and Regulations in Local Jurisdictions

### Ratio of non-audit service fees to audit fees paid by an audit client

- 4 countries plus the EU Regulation have requirements regarding comparisons between non-audit service fees and audit fees paid by an audit client
- No standards exist in the Code

**France:** French Code of Ethics Article 32

**Italy:** Italian Auditing Standard 5.8.22

**South Africa:** South Africa King 3

**UK:** UK ES 4.3D, 4.4-5 | ES 5.25-27

**EU:** Regulation Art 4.2

### Key Observations

- Complete ban on NAS
- Independent partner review of audit work required if NAS fee exceeds audit fee
- TCWG have active role in monitoring and approving fees
- 70% cap on NAS fees for regulated PIEs

## Ethical Rules and Regulations in Local Jurisdictions

### Provision of audit services by a firm that also has significant NAS business

- No jurisdictions have requirements regarding the provision of audit services by firms with significant non-audit services businesses
- No requirements exist in the Code

## Preliminary WG Views



## Next Steps

- WG to reflect on input provided by Board and report back at the March 2017 meeting with more specifics
- WG to liaise with existing Safeguards TF to understand whether/ how some of the NAS findings have been taken into account as part of their work
- **Pending** – Outreach to stakeholders (investors, TCWG, firms etc.,) to further understand their perspectives

## Matters for IESBA Consideration

1. IESBA members are asked to exchange views about the findings identified from:
  - a) Prof. David Hay's final research report; and
  - b) The WG's G-20 benchmarking
2. Based on the final research report and the G20 benchmarking, do IESBA members believe that there is a need for a fee project? Is more research is needed to further understand specific issues first?



## The Ethics Board

[www.ethicsboard.org](http://www.ethicsboard.org)