

FEES QUESTIONNAIRE

IESBA Seeks Your View about the Level of Fees Charged by Audit Firms

The level of fees charged by audit firms is considered by some stakeholders as an element that may affect auditor [independence](#) and a professional accountant's ability to comply with the [fundamental principles](#) in the [IESBA Code of Ethics for Professional Accountants](#) (the IESBA Code), particularly professional competence and due care. Auditor independence and compliance with the fundamental principles of ethics instill confidence in, and increase the credibility of, financial information, thereby contributing to audit quality.

The IESBA is keen on further understanding whether and, if so, how the level of fees charged by audit firms affect compliance with the fundamental principles and auditor independence. The IESBA seeks to understand these matters in order to determine whether and how the IESBA Code should be further enhanced to address issues relating to the level of fees charged by audit firms. In this regard, the IESBA established a Fees Working Group in 2016 to undertake this work and make recommendations by 2018. The Working Group commenced its work with commissioning [a summary of research on the topic of fees](#).

The IESBA narrowed its focus on the following in relation to the level of fees charged by audit firms:

- Downward pressure on audit fees;
- High dependence of audit fees from a client, at the firm and engagement level;
- High ratio of non-audit fees to audit fees from an audit client; and
- Non-audit fees as high percentage of the firm's revenue in relation to audit fees.

The January 2016 IESBA Staff publication, [Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#) responds to certain stakeholders' concerns about downward pressure on fees being a factor, potentially adversely impacting audit quality.

This Fees Questionnaire is the final phase of the Working Group's fact-finding. The Working Group invites you to share your views and perspectives on the topic by responding to the questions in Section A, *Respondent Classification*, and **one** set of the questions in Section B, *Survey Questions*, pertaining to your classification. Your responses will help shape IESBA's understanding of fee-related issues and may also inform an appropriate response. The Appendix to this Questionnaire includes contextual information about the IESBA's Fees Initiative and a list of defined terms that might be useful in responding to the questions in Section B.

Respondents are asked to submit their completed questionnaires in PDF electronically through the IESBA website, using the ["Submit a Comment"](#) link. Completed questionnaires are requested by **February 1, 2018**. Also, please note that first-time users must register to use this feature. All completed questionnaires will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that the questionnaires are submitted via its website, they can also be sent to Ken Siong, IESBA Technical Director at KenSiong@ethicsboard.org.

Section A: Respondent Classification

1. In which country or jurisdiction do you work or serve? (If international, please indicate so; if a region of the world, please indicate which region.)

2. Please indicate which of the following best describes your role:

Role (Please select the most appropriate category)	Relevant Survey Questions
<input type="checkbox"/> Investors and investor representatives	B.1
<input type="checkbox"/> Other users of financial statements (e.g., Analyst, Customer, Creditor/Supplier, Lender), please specify: _____	B.1
<input type="checkbox"/> Those charged with governance (TCWG), including Audit Committees and Board of Directors	B.3
<input type="checkbox"/> Regulators and audit oversight authorities	B.4
<input type="checkbox"/> National standard setters	B.5
<input type="checkbox"/> Internal auditors	B.6
<input type="checkbox"/> Accounting firms and individual professional accountants in public practice (PAPPs)	B.2
<input type="checkbox"/> Preparers and other professional accountants in business (PAIBs)	B.6
<input type="checkbox"/> Public sector organizations	B.6
<input type="checkbox"/> IFAC member bodies	B.5
<input type="checkbox"/> Academics	B.6
<input type="checkbox"/> Other, please specify: _____	B.6

3. Would you be willing to be contacted for an interview on the topic of fees?

- Yes
 No

4. Please provide the following contact information (optional):

Your name and job title/role: Antony Nettleton, Global leader_

Quality and Risk Management

Your email address: antony.nettleton@gti.gt.com

Your organization's name: Grant Thornton International Ltd. (GTIL)

Section B: Survey Questions

Using the table in Section A as a guide, please answer the set of questions that best applies to your role.

Highlights of Provisions Relating to Fees in the IESBA Code

The IESBA Code requires firms to evaluate the significance of threats to compliance with the fundamental principles and independence and either eliminate them or reduce them to an acceptable level. In relation to fees, the IESBA Code notes that there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For instance, a self-interest threat to professional competence and due care is created when the fees quoted is so low that it may be difficult to perform the engagement with the necessary standards for that price. Also, a self-interest or intimidation threat may be created when:

- The total fees from an audit or assurance client represent a large proportion of the firm's total fees as a result of dependence on that client and a concern about losing the client.
- The fees generated from an audit or assurance client represent a large proportion of the revenue of an individual partner or an individual office of the firm.

The IESBA Code includes examples of safeguards that firms are required to apply to deal with such threats created by the level of fees charged. In addition, for audit clients that are public interest entities, the IESBA Code requires firms to disclose to those charged with governance of the audit client any fees received that represent more than 15% of the firm's total fees for two consecutive years, and the safeguards applied by the firm.

B.1. Accounting Firms and Other PAPPs

General

1. Do you believe that the level of fees charged by an audit firm gives rise to ethics and/or independence issues? Please explain your response.

Audit fees:

The level of fees charged by an audit firm can give rise to ethical or independence issues, depending on the specific situation, especially if the fee is important for the firm or the partner. The provisions in the Code address threats to independence, such as self-interest and intimidation threats that may arise from the total fees from an audit client representing a large proportion of the total fees of an individual partner, office or the firm.

Conversely due to constraints in the market, firms could face pressure to obtain clients resulting in a promotion of their services at a very low fee to win the assignment, with the intention of increasing fees in subsequent years. This can create a threat to the fundamental principles of objectivity (independence), professional confidence and due care, ultimately affecting audit quality. Furthermore, the firm has a vested interest in the business continuing as a going concern and therefore recuperating higher fees in the following years.

It is increasingly important for buyers of audit services to select a firm based on competence, experience and quality rather than fee levels.

Non-assurance fees:

We understand there is a viewpoint that an auditor's independence and objectivity can be questioned in relation to the level of fees charged for non-assurance services to an audit client creating a perceived self-interest threat. This threat can be heightened when an office or partner's focus is on the non-assurance services as opposed to the public interest of an audit.

However, the audit engagement leader in a large diversified practice would not be influenced by the fees for the non-audit services if they are inconsequential to the performance of his office and the proportion of the firm's revenues on which the profit share is calculated. The accrued benefit of profit from any one assignment is usually sufficiently diluted across the business such that it would not influence the independence of the audit engagement leader.

2. What policies and procedures does your firm have in place to deal with threats that might be created by the level of fees charged? For example, does your firm monitor client revenues to identify possible fee-related ethical issues such as a self-interest threat created by over-reliance on fees (e.g., by office, individual engagement partners or other method)? If so, please explain.

At the global level, GTIL has global client acceptance policies that require member firms to gain approval from a global client acceptance committee based on certain criteria, including those identified by the Code as threats to independence. In these situations, additional safeguards would be put into place such as appointing an EQCR.

As a result of the requirements of national professional standards and regulations, some GTIL member firms have implemented policies and procedures for monitoring the level of fees for non-audit services for audit clients, including a requirement for all non-audit services to be authorized by the audit engagement leader.

3. Do you believe that the IESBA Code establishes sufficient and appropriate provisions to help professional accountants and firms deal with threats to compliance with the fundamental principles and independence that might be created by the level of fees charged? Do you believe that the IESBA Code appropriately deals with the issues you identified in Q1?

GTIL believes the Code establishes sufficient and appropriate provisions to help professional accountants and firms deal with threats to compliance with the fundamental principles and independence that might be created by the level of audit fees charged by a firm or professional accountant.

We believe the IESBA Board should consider promulgating standards that address the concerns on the level of non-audit fees charged to an audit client. Please refer to our response in question 5 below.

4. Do you believe that there are aspects of your firm's policies and procedures described in Q2 above that are more stringent than the provisions in the IESBA Code? If so, please explain why.

The Code is principles based and with the provisions in the Code and the application of the conceptual framework, member firms can identify threats and apply appropriate safeguards with respect to non-assurance fees. GTIL has processes in place to ensure appropriate safeguards are implemented and any threats eliminated or reduced to an acceptable level based on the specific facts and circumstances of the matter.

Grant Thornton member firms are required to follow national professional standards and regulations when they are more restrictive than the Code. In jurisdictions where more restrictive requirements on fees exist, these firms' policies on fees will be more restrictive than the requirements in the Code.

5. What do you believe should be done to respond appropriately to concerns about the level of fees charged by audit firms? What should be IESBA's role? Who else should play a role and what should that role be?

GTIL believes IESBA should work closely with audit regulators, audit oversight authorities, standard setters, audit committees, IFAC member bodies, and others as appropriate, to address concerns surrounding the level of fees charged by audit firms for audit and non-audit services. However, we would like to note that we believe the standards in the Code addressing the level of audit fees received from one client as compared to the firm's/professional accountant's total revenues sufficiently address any threats that may arise.

IESBA could have a role in helping to ensure that audit fees do not continue to decline through standard setting, guidance and education. The constant decline in audit fees versus the increasing expectations and risks for auditors is one of the most serious challenges facing the profession. The constant decline in fees can undermine the integrity of the audit and audit quality. It is increasingly critical that selection of auditors is not made based on the lowest level of fees. It can undermine quality, morale and the attraction of the audit profession.

Furthermore, we believe it is imperative for the IESBA Board to work with the above mentioned stakeholders to develop a comprehensive, balanced and holistic approach to deal with threats and concerns regarding the level of non-audit fees charged to audit clients. Factors to consider include (not all-inclusive):

- The linkage between audit failures and the provision of non-audit services being provided to an entity, as demonstrated in case studies
- The genesis of the non-audit service(s): it is required by legislation or contract, or services where the information required is a by-product of the audit,
- The value auditors bring with their existing knowledge of the entity and the industry the entity operates in,
- The responsibility of the audit committee to oversee and review the provision of non-audit services of the company,
- Communication and disclosure requirements between the auditor and audit committee regarding the auditor's independence and objectivity as it relates to performing permitted non-audit services, and
- Threats arising from economic dependence on the fees from the non-audit services

Non-Audit Services

6. As a matter of policy, does your firm provide non-audit services to audit and assurance clients?
- If yes, are there certain types of services beyond those prohibited by the IESBA Code that your firm does not provide? Please provide some examples.

- If no, why?

Certain GTIL member firms do provide non-assurance services to their audit and assurance clients as permitted by the IESBA Code and their national professional standards and regulations.

Non-assurance services prohibited by the SEC/PCAOB independence rules, the EU Audit Regulation and Member State Options, and not prohibited by the IESBA Code, would not be performed by our member firms for audit or assurance clients when these independence standards are applicable.

7. In your opinion, would a high ratio of non-audit fees to audit fees charged to **an audit or assurance client** create threats to an auditor's compliance with (Please select one or more answers):

- Professional competence and due care as defined by the IESBA Code?
- The other fundamental principles that are included in the IESBA Code – integrity, objectivity, professional behavior and confidentiality?
- Independence as defined by the IESBA Code?
- None of the above.

It depends on what is considered as a high ratio and in some circumstances it may be justified. However, we do acknowledge that there could be an independence impairment in appearance if non-audit fees for an audit client exceed audit fees.

8. In your opinion, would a professional accountant's or the firm's compliance with one of the following be impacted if a high percentage of that firm's revenue is generated from providing non-audit services to the firm's clients (Please select one or more answers):

- Professional competence and due care as defined by the IESBA Code?
- The other fundamental principles that are included in the IESBA Code – integrity, objectivity, professional behavior and confidentiality?
- None of the above.