

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.)

Germany

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 checked="" type="checkbox"/> X 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: Gillian Waldbauer,
Head of International Affairs

5. Your email address: Waldbauer@idw.de

Your organization's name: Institut der Wirtschaftsprüfer e.V. (IDW)

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.

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.

We have two distinct aspects of concern:

- A) In our opinion, undue dependency on fees from a specific audit client (audit fee and/or fees for non-audit services) could adversely impact an auditor's objectivity. Such dependency could relate to audit fee alone (i.e., where that fee constitutes a significant portion of the firm's total fees) or from dependency on total income from the client where non-audit services are also rendered. This may apply to the firm as a whole as well as to individual partners. Provided they are sufficiently robust – adherence to the firm's quality assurance procedures ought to be viewed as a safeguard (see ISQC 1, paragraph 20 et seq.), which in accordance with standards applicable in Germany now function in conjunction with specific provisions in German law.
- B) We acknowledge the staff publication "Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure" from 2016 and agree that excessive fee pressure might pose a threat to ethical issues such as professional competence and due care, and objectivity. We are aware that – in particular, following the introduction of mandatory audit firm rotation – this is increasingly an issue in many countries within Europe, especially when audit is viewed as a mere commodity such that entities charge their procurement department with sourcing as low a price as possible. Indeed, we believe that efforts need to be made beyond just the audit

profession to ensure the value of a high quality audit is better understood and appreciated. In this context, standard setters and regulators also need to look at the impact of their own actions pro- and retrospectively.

2. Has your organization identified from inspections, disciplinary investigations or other means, any fee-related issues that might have created threats to compliance with the fundamental principles or to independence? If so, please describe the finding. For example:
 - What was the nature of the issue?
 - How frequently did it occur and what was the severity?
 - Did the firm appropriately deal with the issue? If not, do you believe that there are impediments that might have affected the firm's response, and if so, what were they?

N/A. IDW is not responsible for inspections or investigations of its members' engagements.

3. Does your organization have any other concerns about the level of fees charged for audit or non-audit services? If yes, please describe them and their basis. Does your organization have any current or proposed initiatives to deal with those concerns?

Yes, as explained in our response to question 1, the IDW is concerned about audit fee pressure that has noticeably increased following the introduction of mandatory audit firm rotation. As the IDW had predicted, rather than increasing competition in the audit market more and facilitating smaller and medium-sized audit firms entering this market there has been a further concentration amongst the larger firms, and a noticeable decline in audit fees. As noted above, we recognize that perceptions as to the value of an audit need to be enhanced and is active in this area.

We also believe that it would be appropriate for regulators and standard setters, including the IESBA to consider carefully the potential for unintended consequences for audit quality when determining any course of action in relation to fees.

4. 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?

Yes. The current provisions remain appropriate.

5. Do you believe that there are certain regulatory requirements in your jurisdiction relating to the level of fees charged by audit firms that are more stringent than the provisions in the IESBA Code? If so, please explain why.

Provisions in German law relating to fee income are not more stringent than the Code.

However, going beyond the Code, German law does not preclude an audit firm from providing audit services for a low fee, but instead requires that the firm be able to evidence (to the supervisory authority on demand) that both sufficient time and qualified personnel were deployed in the performance of the audit (see Article 55, paragraph 1, sentence 5 of the WPO [“Wirtschaftsprüferordnung”: German Law Regulating the Profession of Wirtschaftsprüfer]).

6. 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?

The IDW does not believe that the Code needs to be revised, since the principles therein remain sound.

However, in our view, perceptions that an audit is a commodity need to be counteracted in a coordinated manner, with all parties considering how they can contribute. For example, a study to explore the (unintended or unforeseen) consequences of specific regulations might be extremely helpful.

It is essential that audit is perceived as a valuable professional service by the market if companies are to be willing to pay a fair price, instead of looking for lower fees as a matter of course.

Irrespective of the issue of who might be considered most appropriate to play a role, we would also caution that any initiatives aimed at ensuring fees are appropriate would need to bear in mind anti-trust and anti-competition laws and regulations in place (e.g., in the U.S. and in the EU (and national jurisdictions within the EU)).

Non-Audit Services

7. In your jurisdiction, are there specific regulatory provisions that apply to the level of fees charged for (a) audit and assurance engagements; and (b) non-audit services provided to audit and assurance clients?
 - (a) See response to questions 5 above.
 - (b) Whilst fee income is not specifically noted as a criterion in the context of non-audit services, tax advisory and valuation services may only be provided for PIEs where they have an indirect and not material impact on the financial statement subject to audit (see Article 319a, paragraph 1, sentence 1 nos. 2 and 3 of the HGB [“Handelsgesetzbuch”: German Commercial Code]. It is thus unlikely that these services would generate significant fee income from an audit client. German law also precludes a variety of non-audit services to audit clients, irrespective of their status. This also indirectly limits the ability of audit firms to generate fee income from non-audit services,

however there are no specific caps governing the relationship between fees from audit and non-audit services provided to audit and assurance clients.

8. 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.

9. 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.**

Additional Information

A. Contextual Information about the IESBA's Fees Initiative

The IESBA established a Fees Working Group in March 2016 to conduct fact-finding about 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. This work is responsive to concerns raised by stakeholders, in particular regulators and audit oversight authorities. The Working Group's fact finding is focused on obtaining an understanding of 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.
- 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.

As part of this initiative, 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 audit fees for the period between 2006 and 2016. Prof. Hay observed that the findings with respect to the Working Group's four areas of focus were generally mixed. However, Prof. Hay observed that there has been consistent research findings that suggest a link between threats to independence in appearance and higher non-audit fees charged by audit firms to their audit clients.

The Working Group is expected to complete its fact finding and develop its final recommendations to the IESBA in 2018.

B. Defined Terms

1. *Independence*

The IESBA Code explains that independence comprises the following two separate elements:

- (a) Independence of Mind - The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- (b) Independence in Appearance - The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

An accounting firm or individual PAPP must ensure both elements of independence are not compromised.

2. *The Fundamental Principles*

Professional accountants must comply with the five fundamental principles of professional ethics which are described in the IESBA Code as follows:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.

The fundamental principles establish the standard of behavior expected of professional accountants. The IESBA Code also describes a conceptual framework which establishes the approach which all accountants are required to apply to assist them in achieving compliance with those fundamental principles.

3. *Threats*

The IESBA Code explains that threats to compliance with the fundamental principles and independence fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.