

## 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 has extended their deadline to March 1, 2018 to give stakeholders an extra month to respond to their Fees Questionnaire.***

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 **March 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](mailto: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.)

Australia \_\_\_\_\_

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

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: Channa Wijesinghe, CEO

Your email address: [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au)

Your organization's name: Accounting Professional and Ethical Standards Board

## 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. National Standard Setters and IFAC Member Bodies**

#### *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.

#### **APESB Response**

Yes, the level of fees charged by an audit firm can create ethical and independence issues. APESB agrees with the comments in the section 'Highlights of Provisions Relating to Fees in the IESBA Code' at the start of this questionnaire as to the nature of issues (e.g. threats) that can arise.

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?

## **APESB Response**

APESB is responsible for setting the professional and ethical standards for professional accountants in Australia who are members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. APESB's mandate does not include inspections or disciplinary investigations.

ASIC, the audit regulator in Australia has been concerned with the matter of low fees on the efficiency and effectiveness of the audit. An [article](#) authored by an ASIC officer urges directors to consider the impact that driving down audit fees has on the ability of the auditor to maintain high audit quality. The latest [audit inspection report](#) issued by ASIC, includes comments that ASIC will conduct deeper reviews where they believe lower fees have been charged for audits that do not reflect changes to the business of the relevant entity.

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?

## **APESB Response**

APESB have dealt with or have noted the following concerns about the level of fees:

### 1. Ratio of non-assurance fees to assurance fees and the impact on independence

A stakeholder has raised with APESB a concern about independence when the fees generated from providing non-assurance services is substantially larger than the audit fees generated from that client for the firm.

APESB believe the current provisions in the Code relating to the provision of non-assurance services to audit and assurance clients and independence adequately address this matter. However, an additional factor could be included in proposed restructured paragraph 600.5 A1 is to consider the ratio of non-assurance fees to audit fees when evaluating the level of threat created if providing both assurance and non-assurance services to a client.

APESB is proposing to amend our pronouncement APES 220 *Taxation Services* to address this matter, with the amendment including a cross reference to the existing provisions in the Code.

### 2. Commission and referral fees

Another matter that APESB has been required to address in Australia is the use of commission or referral fees. The Code includes guidance on the threats to the fundamental principles that may arise in relation to these types of fees. However, in Australia we have added additional provisions to our version of the Code (APES 110) which ban commissions in relation to Assurance Engagements and requires notification to the client on any commissions or referral fees. The provisions are set out below for your reference:

- AUST 240.7.1      A Member in Public Practice who is undertaking an engagement in Australia and receives a referral fee or commission shall inform the client in writing of:
- the existence of such arrangement;
  - the identity of the other party or parties; and
  - the method of calculation of the referral fee, commission or other benefit accruing directly or indirectly to the Member.

AUST 240.7.2 The receipt of commissions or other similar benefits in connection with an Assurance Engagement creates a threat to Independence that no safeguards could reduce to an Acceptable Level. Accordingly, a Member in Public Practice shall not accept such a fee arrangement in respect of an Assurance Engagement.

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?

**APESB Response**

APESB agree that the provisions are sufficient and appropriate, although we would like to see a requirement in the Code that specifically bans commissions in relation to engagements which require Independence (refer to our response to Question 3).

In addition, the IESBA could consider the existing thresholds in the Code relating to the level of fees generated from one Client. For example, proposed paragraphs R410.4 to R410.6 of the restructured Code set out requirements where the total fees received from an audit client (that is a public interest entity) represent 15% of the total fees received by the firm for two consecutive years. Based on the changing nature of audit firms and the expansion into additional service offerings, the IESBA could review whether the 15% is the appropriate threshold at which firms should be considering if there is a fee dependency issue with a specific client.

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.

**APESB Response**

There are no specific regulatory requirements in Australia about the level of fees charged by audit firms. However, in certain instances Audit Committees of entities may establish guidelines on the extent to which an audit firm can provide non-audit services.

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?

**APESB Response**

This is a complex issue and there is no one definitive response that will address the issue.

Subject to our responses to questions 1-4 above, IESBA should continue to engage with global stakeholders on these matters to determine appropriate amendments to the Code.

## 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?

### **APESB Response**

#### Regulatory requirements

There are no specific regulatory requirements in Australia about the **level of fees** charged for audit and assurance engagements or for non-audit services provided to audit and assurance clients. As noted previously, Audit Committees of entities may establish guidelines on the extent to which an audit firm can provide non-audit services.

There are requirements in the *Corporations Act 2001* (s 300(11) – (11E) that require a Listed Entity to disclose the provision of non-audit services by their auditor including:

- Details of the amounts paid or payable to the auditor for *non-audit services* provided, during the year, by the auditor;
- A statement whether the directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Act;
- A statement of the directors' reasons for being satisfied that the provision of those non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) did not compromise the auditor independence requirements of this Act.

The statements must be made in accordance with advice provided by audit committee, or a resolution of the directors where there is no audit committee.

#### Potential to establish further requirements or guidance on the level of non-assurance fees

It was [reported in the Australian media](#) in early February 2018 that firms are growing their non-assurance and consulting services and as a consequence audit as part of the total firm's revenue is shrinking. Firms are also expanding into new service offerings such as legal and technological services.

The main source of revenue for a firm being from non-audit services could cause threats to independence if these services are also being provided to an audit client.

Based on these changes it may be an appropriate opportunity for the IESBA to consider the need for additional requirements and/or guidance to establish appropriate thresholds or ranges for audit fees compared to non-assurance services fees for a Client. As part of this consideration, the IESBA should identify applicable safeguards and outline at what threshold or range the safeguards may no longer be effective at addressing threats to Independence. For example, if non-assurance services was a low multiple of the audit fees there may be safeguards that apply, but if the non-assurance services fees were a higher multiple compared of audit fees then it may be more difficult to enact appropriate safeguards to reduce threats to independence to an Acceptable Level.

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.