

## IESBA - Fees Questionnaire

### 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.)*

United Kingdom

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

Regulators and oversight authorities

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

Yes.

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

Your name and job title/role: Keith Billing, Project Director, Audit & Assurance Team

Your email address: k.billing@frc.org.uk

Your organization's name: Financial Reporting Council

### Section B: Survey Questions

#### B.4. Regulators and Audit Oversight Authorities

##### *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.

Yes, the level of fees charged by an audit firm can give rise ethical issues, including in relation to independence. For example, self-interest threats and actual or perceived threats to independence can arise when:

- There are high levels of fees from one client as a proportion of a firm's total income or the basis on which a partner's profit share is determined.
- Fees for non-audit services provided to an audit client are high in relation to the audit fee.
- Fees are, or are perceived to be, too low to enable a quality audit.
- Fees for completed services/work are overdue.
- There are contingent fee arrangements. For an audit the threats would be so significant they could not be eliminated.

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?

The FRC does not disclose details of specific audit inspections or disciplinary investigations, other than through our own announcements and publications. Ethical issues related to fees are covered in our answers to the other questions in this survey.

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?

Section 4 of our Ethical Standard on Integrity, Objectivity and Independence identifies concerns that may arise in relation to fees, including those identified in our answer to Q1 above, and establishes ethical provisions in relation to them.  
(<https://www.frc.org.uk/getattachment/0bd6ee4e-075c-4b55-a4ad-b8e5037b56c6/Revised-Ethical-Standard-UK-June-2016.pdf> )

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?

Our Ethical Standard includes provisions that are more stringent than those in the IESBA Code. These are described in response to Q5 below.

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

Our Ethical Standard includes some provisions that are more stringent than those in the IESBA Code, including:

**Fee level shall not compromise work**

Our Ethical Standard requires that the engagement partner shall be satisfied and able to demonstrate that the engagement has assigned to it sufficient partners and staff with appropriate time and skills to perform the engagement in accordance with all applicable engagement and ethical standards, irrespective of the engagement fee to be charged. This emphasises that there are no circumstances where the amount of the engagement fee can justify any lack of appropriate resource or time taken to perform a proper engagement.

**Fees - relative size**

Our Ethical Standard requires that where it is expected that the total fees for services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 10% of the annual fee income of the firm or, where profits are not shared on a firm-wide basis, of the part of the firm by reference

to which the engagement partner's profit share is calculated, 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. This differs from the IESBA provision in a number of respects; in particular, we believe that 10% is a more appropriate limit than the 15% established in the IESBA Code and that when the limit will be exceeded on a regular basis the engagement should not be accepted rather than allowing for safeguards. We also believe it is important to have regard to the threat at a partner level as well as the firm level.

Additionally, our Ethical Standard requires that where it is expected that the total fees services receivable from a public interest entity or other listed entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 5% of the annual fee income of the firm or the part of the firm by reference to which the engagement partner's profit share is calculated, but will not regularly exceed 10%, the engagement partner shall disclose that expectation to the Ethics Partner/Function and to those charged with governance of the entity, including the audit committee where there is one, and discusses with both the threat to integrity, objectivity and independence of the firm and covered persons and whether safeguards need to be applied to eliminate or reduce the threat to a level where independence would not be compromised.

We also have more stringent requirement than the IESBA Code for non-listed entities. Where the IESBA Code applies a threats and safeguards approach but no specific limits, our Ethical Standard requires that where it is expected that the total fees for services receivable from a non-listed entity that is not a public interest entity and its subsidiaries relevant to a recurring engagement by the firm will regularly exceed 15% of the annual fee income of the firm or, where profits are not shared on a firm-wide basis, of the part of the firm by reference to which the engagement partner's profit share is calculated, 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.

#### **Cap on fees for non-audit services**

Reflecting requirements of the EU Audit Regulation, our Ethical Standard imposes a cap on fees for non-audit services (other than those required by EU or national legislation) that are not subject to an outright prohibition that can be provided to a public interest entity and its controlled undertakings. In essence the total fees for such services are limited to no more than 70% of the average of the audit fees paid in the last three consecutive financial year. We have implemented this in such a way that it also addresses network firms and that a "gap year" will not "reset the clock". (Please refer to paragraphs 4.34R to 4.37 of our Ethical Standard for the full detail.)

#### **Fees - recurring engagements**

Our Ethical Standard requires that for a recurring engagement, the actual amount of the fee for the previous engagement and the arrangements for its payment shall be agreed with the entity before the firm formally accepts appointment for the engagement in respect of the following period. Where fees for a previous engagement have not been paid before the firm commences a new engagement it is important for the engagement partner to understand the nature of any disagreement or other issue.

#### **Contingent fees for non-audit services**

In addition to a prohibition where the fee would be material to the firm, our Ethical Standard prohibits such services where the contingent fee would be material to that part of the firm by reference to which the audit/assurance engagement partner's profit share is calculated. This recognises there is a self-interest threat for the partner as well as the firm.

Our Ethical standard also specifically prohibits the provision of tax services to listed entities, other than SME listed entities on a wholly or partly contingent basis for which the tax

outcome in respect of the services (and, therefore, the amount of the fee) is uncertain, dependent on the proposed application of tax law, and may be material to present or future financial statements or other subject matter information or subject matter of the engagement. This reflects our belief that actual and perceived threats from such services cannot be eliminated or reduced to a level where independence is not compromised. "SME listed entities" are defined - such an entity, inter-alia, has an average market capitalisation of less than €200m on the basis of year end quotes for the previous three calendar years.

Our Ethical Standard requires firms to establish policies and procedures to ensure that the engagement partner and the Ethics Partner/Function are notified where others within the firm propose to adopt contingent fee arrangements in relation to the provision of non-audit / additional services to the entity relevant to the engagement or its affiliates.

In the case of public interest entities and of other listed entities relevant to an engagement, our Ethical Standard requires the engagement partner to disclose to the audit committee, in writing, any contingent fee arrangements for non-audit / additional services provided by the firm or its network firms.

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?

Appropriate provisions should be established in ethical codes. For jurisdictions that adopt the IESBA Code, IESBA should be satisfied that it addresses concerns of stakeholders. Where such provisions are absent or not seen as strong enough, other provisions may be established in national law or regulations, including the adoption/establishment of national ethical codes and/or standards.

#### *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?

See our response to Q5.

There are also legal requirements for companies to disclose details of the fees paid to auditors for audit and non-audit services.

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.