

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.)**

South Africa

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

Role <i>(Please select the most appropriate category)</i>	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 checked="" 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: Bernard Peter Agulhas (Chief Executive Officer)

Your email address: bagulhas@irba.co.za

Your organization's name: Independent Regulatory Board for Auditors (IRBA)

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 fee, together with the engagement letter and audit report, establishes the relationship between the parties. Also, the fee helps determine resources, scope and time allocated. The level of fee, together with fee dependence, goes to the heart of independence and audit quality.

The independence concern relates to both independence of mind and independence in appearance. For example, a small fee might indicate that the audit plan is subject to little change, even if required by the auditor. Additionally, the engagement partner may consider the level of recoverability of cost overruns before undertaking further work on the engagement. Also, the threat to independence is further elevated if the engagement partner is evaluated and/or remunerated based on this audit fee recoverability.

In South Africa, there is a market concentration of large audits among a few firms. While this may not appear to be an ethics related issue, it does draw on the professional behaviour of firms and their attitude towards fee issues.

The IEBSA Fee project has been discussed several times internally at the IRBA, and we look forward to constructive progress on this project. A response by the IESBA is necessary, failing which local standard setting may have to be initiated.

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 IRBA has adopted the IESBA Code of Ethics for Professional Accountants (IESBA Code) with local amendments. We currently have no local amendments prohibiting loss-making arrangements or guidance on the threats to the fundamental principles when entering an engagement that may result in loss-making. Thus, while we have identified cases of downward fee pressure on firms, we have not yet taken any enforcement actions.

As there are no specific rules or guidelines relating to high dependence on audit fees from a client at engagement level, and the high ratio of non-audit fees from an audit client, we have not raised these inspection findings. We would support the inclusion of more constructive guidance in the IESBA Code in relation to fee matters.

It is important that fee issues be considered under acceptance and continuance.

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?

There is a concern that audit fees are sometimes not high enough, which may result in a number of undesirable practices that affect audit quality.

Further consideration should be given to audits performed for free, or subsidised, and whether a free, or subsidised service, is compatible with the responsibilities of the auditor in terms of the Code, and when such services should be prohibited.

The concern here is that an auditor who is working for free:

- May not prioritise the engagement (in terms of quality), yet provide the same assurance as fee earning work;
- May have a quid pro quo, which has a bearing on related fee earning work;
- May be linked to favours due to a prominent person, and for example, the charity they are associated; or
- May not be able to assess audit complications appropriately as there is no means to recover overruns.

Additionally, there is a threat to the fundamental principles as the following items are often dependent on fees:

- Partners' promotion/remuneration;
- Cash flow impact of slow collections; and
- Recruitment of new staff resources, before work is available.

The threat is further escalated by the firm's internal budget process which may include multi-year budgets, which make certain assumptions, (like client retentions) that have a bearing on independence and quality.

While there needs to be a commercial and professional balance, guidance on the level of fees is necessary.

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?

No. The IESBA Code does not sufficiently highlight many of the issues discussed in response to survey questions 1-3.

While the IESBA includes provisions relating to fee issues, these are not sufficiently robust. An example is paragraph 410.7 A1 (Restructured Code) which only raises the issue of low recoverability if "a significant part of fees is not paid before the audit report for the following year is issued". We believe that the period in which to assess recoverability is too long. We have encountered this practice, and believe that a response in the IESBA Code to this risk, could act as a deterrent, or assist in enforcement actions. We have provided in Section 6 examples to describe what enhancement is needed to the IESBA Code.

This is something that the IRBA inspectors have observed, but are unable to raise as a finding.

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.

There are no requirements in the IRBA Code of Professional Conduct or in South African legislation for registered auditors relating to the level of fees.

In South Africa, listed entities and state-owned companies are required to establish audit committees, while some other companies have voluntarily elected to do so. The South African Companies Act, 2008 (Act No. 71 of 2008) has specific requirements for audit committees. Section 94 (7)(b) and (d) specifically has the following requirements:

“(7) An audit committee of a company has the following duties:

(b) to determine the fees to be paid to the auditor and the auditor’s terms of engagement;

(d) to determine, subject to the provisions of this Chapter, the nature and extent of any non-audit services that the auditor may provide to the company, or that the auditor must not provide to the company, or a related company.”

The Auditor General of South Africa (AGSA) has issued guidelines on Fees for Audits Performed on Behalf of the AGSA. Below is a link to the relevant guidance: https://www.saica.co.za/Portals/0/Technical/financial-reporting/Circular_01_2017_Guideline_on_AGSA_Fees_March_2017.pdf

The IRBA Code of Professional Conduct includes a prohibition on charging contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.

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 question of level of fees needs a comprehensive response on these lines:

The IESBA should:

- a. Identify those practices related to fees that should be prohibited.
- b. Identify the relationship between fees and the Audit Quality Framework, and codify it.
- c. Identify the relationships between commercial considerations and fees, and the objectives of ISQC 1.
- d. Develop a framework for the consideration of fees, at a firm level, engagement, and engagement partner level.
- e. The framework should be connected to the fundamental principles, mapped to the prohibitions and fee dependency rules (in each category), and establish

- the rules that must apply in each category (limits, percentages, terms).
- f. Deal with fee sharing issues in network scenarios.
 - g. Deal with fee sharing issues in group situations.
 - h. Deal with the impact of fees on independence in the public sector.
 - i. Special considerations related to fees when whistle-blowing/applying NOCLAR.

The responses to this survey will provide the compendium of issues that can be addressed using the framework from (a) to (i).

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?

No.

However, the South African Companies Act, 2008 (Act No. 71 of 2008), Section 94 discussed under question 5 details a requirement for audit committees.

As such, this is an area that we would encourage speedy development on by the IESBA.

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.