



Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York 10017

March 7, 2018

**Re: IESBA Fees Questionnaire**

Dear Mr Siong

**Introduction**

We<sup>1</sup> appreciate and thank you for the opportunity to respond to the Board's questionnaire regarding fees.

**Principal comments**

We believe that the IESBA Code of Ethics (the "Code") provides adequate guidance, as referenced below, which if followed will safeguard the integrity of the audit and address any potential threats to compliance with the fundamental principles.

We are not aware that there is any significant evidence to suggest that there are issues regarding the level of fees established by audit firms and we understand that this view is supported by the academic research the IESBA has recently commissioned.

We recognise that the Code does not specifically address the issue of the ratio of audit to non-audit fees for individual audit clients but we believe that any threat to compliance with the fundamental

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<sup>1</sup> This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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principles would be adequately addressed through application of the conceptual framework set out in the Code.

In our view, the independent audit committee (or equivalent) plays an important role in supervising the extent and nature of any services provided by audit firms to audit clients and in overseeing the compensation firms receive for such services.

The role of the audit committee in supervising the engagement of the audit firm for audit and non-audit services, and the internal consultation arrangements in audit firms, reduce the opportunity for any intimidation or commercial incentivisation of the auditor by the company's management. Even so, we recognise that this is a matter that the audit firm should discuss with the audit committee regularly as part of the ongoing process of the audit committee monitoring the performance and independence of the auditor.

### **Detailed responses**

#### **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 do not believe that, in practice, the level of audit fees charged by an auditor is giving rise to ethical or independence issues.

It is important to consider the basis or motivation behind any proposed reduction in fees. For example, an audit firm may be able to propose a fee that is lower than charged by the incumbent auditor taking account of expected technological developments in its approach to the conduct and methodology of the audit that will achieve savings over time.

We believe that the existing guidance set out in Paragraphs 240.1 and 240.2 of the Code regarding setting fee levels, including audit fees, is adequate to safeguard the integrity of the audit and to ensure that the fee is set at a level that does not create a threat to compliance with the fundamental principles.

#### **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.**

Our policies reflect the provisions in the Code relating to relative size of fees for an individual partner or office (which require an evaluation of threats and safeguards where such fees are relatively high).

Further in relation to the audit of PIEs, we comply with the requirement in the Code to disclose to those charged with governance of the audit client any circumstance where the total of our fees represents more than 15% of the total fees received by the firm, and discuss the safeguards put in place to reduce the threat to an acceptable level – this is rarely the case in practice for our Network.

We believe that this threshold of 15% of the firm's fees set by the Code (Paragraph 290.215) is appropriate and protects the integrity of the audit.

**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?**

We have not identified any concerns (refer to our response to Q1). We believe that the Code provides sufficient and appropriate provisions, as referenced above, to help professional accountants and firms address potential threats to compliance with the fundamental principles, including any related to fees charged for professional services. The newly restructured Code, which is shortly to be released, includes an enhanced conceptual framework to facilitate the identification and evaluation of threats to the fundamental principles and this will provide further assistance to practitioners.

**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.**

Our independence policies regarding fees are consistent with the Code and which, as noted above, we believe are appropriate and sufficient.

**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?**

We believe that the January 2016 IESBA Staff publication, *Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure*, was helpful to the profession.

It is unclear what concerns this question refers to as the Questionnaire does not provide any detail on what specific concerns have been raised and by whom.

We can understand why stakeholders would have concerns, in principle, that downward pressure on audit fees might create a threat to audit quality, though we are unaware of any verifiable research or studies that have concluded this is the case on a wide scale or systemic basis. We are aware that the



requirements for mandatory firm rotation in some jurisdictions have resulted in downward pressure on audit fees and that there is some evidence, from our involvement in audit tenders, that this has resulted in some quite significant reductions in audit fees.

Audit firms are responsible for setting fees at a level which allows them to safeguard audit quality.

However, it is very helpful that Securities Market Regulators are drawing directors' attention to the importance of not basing auditor appointment decisions solely on price. The guidance being developed by IOSCO on audit committees' role in audit quality will be helpful in drawing attention to this.

**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?**

Yes, firms in the PwC Network provide a range of non-assurance services to audit and assurance clients. Such services are evaluated for permissibility in accordance with the Code and any applicable independence requirements in the relevant jurisdiction.

In certain circumstances, our internal guidance is more proscriptive than the Code as we need to deal in some more detail with a range of services that may fall within one of the broader categories addressed in the Code. In some cases, this results in prohibitions on services. For example, applying the principles in the Code relating to bookkeeping, we prohibit in certain situations the provision of services related to the preparation of "Prospective Financial Information".

**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:**

- **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**

Potentially, a high ratio could give rise to a threat, or at least the appearance of a threat, to objectivity and independence if the audit firm either sets the audit fee in the expectation of substantial non-audit fees or becomes unduly reliant on fees from other services, such that audit judgements potentially become influenced by the relationship and/or the potential for "other work". We do not agree with the hypothesis that companies may persuade auditors to reach a favourable opinion on

their financial statements by holding out the incentive of contracts for non-audit services. This has not been our experience.

The independent audit committee plays an important role in supervising the extent and nature of any services provided by audit firms to audit clients and in overseeing the compensation firms receive for such services.

The role of the audit committee in supervising the engagement of the audit firm for audit and non-audit services, and the internal consultation arrangements in audit firms, reduce the opportunity for any intimidation or commercial incentivisation of the auditor by the company's management.

We are of the view that threats to independence can be managed by a mix of:

- Enhanced oversight by the audit committee of auditor independence, and
- Additional disclosure in corporate reports about the nature and level of fees from other services.

Specifically, we would be supportive of any proposals to require audit committees to:

- Identify the nature of the work performed by the auditor and how closely it relates to the audit of the financial statements.
- Clarify the process that the audit committee has gone through in assessing the impact of non-audit services on auditor independence.

**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?**

No, we do not believe this to be the case.

We strongly believe that the audit function must be of sufficient scale to enable the firm to recruit and develop the necessary expertise and resources to undertake a high quality audit and to enable it to invest in the development of the function in the context of a rapidly evolving and complex business



environment. Audit teams must be of the right size and structure, with requisite industry and business experience and with an appropriate mix of capabilities across all relevant technical areas.

The profession must retain the ability to employ a broad range of skilled professionals with diverse backgrounds and competencies to keep up with the changing demands of all stakeholders.

The growth of tax and advisory services that some Networks are experiencing can only serve to strengthen the audit practices by creating additional resources with which to invest in top-of-the line technologies and first rate talent to support audit quality.

This enhances our ability to act with professional competence and due care.

In relation to an audit engagement, we lay great emphasis on the evaluation of any threats to objectivity created by the provision of non-assurance services and to ensure compliance with the Code and any other applicable regulations.

#### **Contact**

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact James Chalmers ([james.chalmers@pwc.com](mailto:james.chalmers@pwc.com)) or me, at [jan.e.mccahey@pwc.com](mailto:jan.e.mccahey@pwc.com).

Yours sincerely

A handwritten signature in cursive script that reads 'Jan McCahey'.

Jan McCahey

Global Regulatory Leader