

1 March 2018

International Ethics Standards Board for Accountants (IESBA)

Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Sir

**SAICA SUBMISSION ON THE IESBA'S FEES QUESTIONNAIRE, VIEW ABOUT THE LEVEL OF FEES CHARGED BY AUDIT FIRMS**

In response to your request for comments on the *fees questionnaire, View about the Level of Fees Charged by Audit Firms*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). We provided comments on part B5 as an IFAC member body and we also encouraged SAICA members in their personal roles to complete the questionnaire.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

**Juanita Steenekamp (CA (SA))**  
**Project Director – Governance and Non-IFRS Reporting**



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IESBA's Questionnaire, *View about the Level of Fees Charged by Audit Firms*  
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**Request for General Comments**

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, in some cases it can influence independence. Actual or perceived ethical issues will occur if non audit fees represent a disproportionate percentage of the total audit fees. Stakeholders may claim that the auditor has a greater interest in protecting the profit stream which will impair their objectivity even if this is not the audit firm's intention. If the fees are too low, audit quality may suffer as pressure is brought to bear on team members to cover the costs involved in undertaking the audits and achieving some value profit or returns. Focus on audit skills and competency may suffer as education, training and development or investment in auditing resources may be lost if the majority of audit firms pursue non audit work and this becomes an overriding focus area. Each case needs to be understood as a smaller firms struggling for survival, will present an increase the likelihood of an ethical breach, or even larger firms with high dependencies on a single client, or stream of clients controlled by a body like Government will also be higher risk - this is where regulators need to focus using risk based assessments after obtaining an understanding of possible inter dependencies and ensuring the audit firms objectivity is never seen to be compromised.*

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?

*As an IFAC member body no fee issues have really been a concern, SAICA does no focus on fee type issues as it would be the audit regulator, IRBA's responsibility. We do not believe that the level of audit fees has been a prevailing focus area by local regulators in South Africa.*

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?



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*We are not overly concerned that fees are an ethical issue as we believe rates charged are determined in a way that is subject to audit committee and other governance oversight in larger entities and smaller entities respectively. The way to deal with this is through empowering audit oversight bodies and regulators to identify methods of probing any dependencies of the firm on any clients they may audit - this could be done during inspections when probing fees for example do standard computations on the percentage of fees verse non-audit fees at partner office and firm level, and percentage audit fees to the firms total fees. Total investment in audit vs non audit expenses by firms (to ensure adequate investment in audit and fiduciary duties is not compromised) where concerned, the inspectors should understand the safeguards in place.*

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, there is room for improvement given that the current requirements are quite limited. Firms should also be encouraged to document the threats and safeguards in place.*

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.

*We have rules that were implemented to improve oversight to a greater degree than the IESBA Code itself, and to also ensure greater independence of our auditors by way of example:*

*The South African Companies Act, 71 of 2008 in section 94 sets out duties of Audit Committees to determine the nature and extent of non- audit services.*

*The King IV Report on Corporate Governance for South Africa is applicable to listed entities and requests those charged with governance to consider the nature and extent of non audit services and to be accountable for monitoring the level of non audit services fees versus audit fees.*

*The Audit committee also approves the audit fees of the external audit firm.*

*The SAICA Code of Professional Conduct has an additional requirement in that it prohibits the charging of contingent fees for tax 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?



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*We have already discussed role of regulators and TCWG like audit committees in the attached An IESBA task force could strengthen current provision in the code without being unnecessarily prescriptive raise conceptual requirements, or advisory material as best practice: Some examples for consideration found in other jurisdictions that require: disclosure of fee dependencies for example Canada , France and the UK. The USA requires disclosure of Audit committee approval policies. Australia requires consideration of a firm that receives a referral of clients from a single entity and how the firm will deal with threats that may arise from this reliance. Canada also has provision forbidding on quoting and Audit fee prior to gaining a proper understanding of the entity engagement. More examples of threats could be added in the code "A self interest threat will arise if a firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee or "Excessive reliance exists on revenue from a single client. A member or his or her firm relies excessively on revenue from a single attest client." or The code could be extended to provide examples of fee threats for example the AICPA code in the USA site: "an undue influence threat may arise if Management pressures the member to reduce necessary audit procedures in order to reduce audit fees" or "Management pressures the member to reduce necessary audit procedures in order to reduce audit fees."*

*We believe that IESBA has been putting much effort in ensuring that public interest is protected at all times in terms of releasing exposure drafts and other types of questionnaires to the public / regulators for commentary.*

*In South Africa, the IRBA already scrutinizes the fees of audit clients when they conduct periodical practitioner file reviews.*

*From a firm's perspective, it is suggested that a more proactive approach is taken (if firms haven't already) to ensure that relevant policies and procedures are in place to monitor and address this issue closely.*

#### Non-Audit Services

1. 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?

*In South Africa - Section 90.2 of the Companies Act, 71 of 2008 prohibits auditors from being appointed by the same client to provide the following non audit services: bookkeeping and accounting services, preparation of annual financial statements, acting as a director or company secretary of the said company, a relative of anyone performing the above.*



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2. 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.
3. 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.