

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.

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.)**

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 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: _____

Your email address: _____

Your organization's name: _____

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. Investors and Other Users of Financial Statements

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.

2. 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?

3. 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?

Non-Audit Services

4. 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.
5. 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.

B.2. Accounting Firms and Other PAPPs

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.

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.

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?

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.

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?

Non-Audit Services

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?

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 (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.

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?
- None of the above.

B.3. TCWG, Including Audit Committees and Board of Directors

General

1. What role does the level of fees play in your consideration of the appointment of your organization’s independent auditor?

2. How do you determine whether an audit firm has the appropriate policies and procedures in place to ensure the quality of the independent audit for your organization is not affected by the level of fees charged?

3. 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.

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? Do you believe that the IESBA Code appropriately deals with the issues you identified in Q3?

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?

Non-Audit Services

6. Do you engage your audit firm for any non-audit services? If yes, please describe the process used to approve the provision of such services. If no, why not?

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 (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.

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?
- None of the above.

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.

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?

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?

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?

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.

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?

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?

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.

B.5. 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.

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?

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?

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?

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.

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?

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?

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.

B.6. Others, Including Preparers and Academics

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.

2. 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?

3. 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?

Non-Audit Services

4. 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.
5. 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.

1 March 2018

IFAC/IESBA

To whom it may concern

THE IMPACT OF FEES CHARGED BY FIRMS ON INDEPENDENCE AND ETHICS

I refer to the study that IESBA is conducting as to whether there is a need for further enhancements to the Code of Ethics for Professional Accountants or the commissioning of staff guidance.

In my opinion and based on my experience in the Industry since 1 January 1998, I wish to state the reasons and provide case studies from my personal experience why I believe that there is a need for further enhancements to the Code of Ethics for Professional Accountants.

A formal study done in 1981 and 1988 found that when Accountants and Auditors in Public Practice set their own fees for services rendered to clients then their independence is most definitely influenced.

Here follows an extract from the studies which was published in the Journal of Business Finance and Accounting in 1996:¹

“Recent concern expressed within the accountancy profession about the issue of fee cutting has culminated in the Chartered Accountants’ Joint Ethics Committee (CAJEC) producing substantially strengthened guidance on fees. The practice of ‘low-balling’ was defined by DeAngelo (1981) as the setting of the initial audit fee below the sum of audit start-up costs plus normal profits. If ‘low-balling’ was shown to exist, there may be implications for auditor independence. Simon and Francis (1988) note the US Commission on Auditors’ Responsibilities concern about this issue, based upon the initial audit price reduction effectively representing an ‘investment’ in the client’s continued financial success. They then point out that a necessary (though not sufficient) condition for this to apply is for substantial price cutting to exist. They proceed to show that substantial fee reductions do indeed exist in the US market, a finding consistent with the prediction of the DeAngelo (1981) ‘low-balling’ model.

A question which arises here is whether or not such fee reductions raise social concerns because of a possible compromising of auditor independence. In DeAngelo’s model, low-balling is a consequence of the ability to earn future economic quasi-rents, with the auditor having an incentive to retain the client in order to realise these future rents. The initial investment would be regarded as an irrelevant sunk cost in keeping with economic tradition. By contrast, Simon and Francis (1988) argue that ‘recent work on the psychology of sunk costs provides evidence that sunk costs do significantly affect subsequent decision making, contrary to predictions from economic theory’ and that this may lead to an auditor independence problem during the period of investment recovery. This problem is in addition to the normal problems of auditor independence. A critical aspect of this type of low-balling behavior is the initial reduction of the audit fee followed by later price recovery. No theoretical

¹ Reference – Journal of Business Finance and Accounting, 23(1), January 1996, 0306-686X

predictions exist for the period of this recovery, but the Francis and Simon evidence shows that by years four to five of an audit engagement fees are a statistically insignificant 6% or so below normal."

Based on the results from these studies, it was indeed found that Low-balling had a significant influence in Auditor's Independence throughout the period of engagement with the client. One must bear in mind that in the 1980's and 1990's the number of Auditing Standards and Accounting Standards that had to be complied with were significant less than those of today. But despite the increase in Auditing Standards and Accounting Standards and the increase in level of compliance required with the various laws and regulations of any country, low-balling still exists today and the Accountants and Auditors in the Public Practice continue to remain without a clear guideline of what the minimum acceptable fees for audit and non-audit engagements should be.

Below is a chart that illustrates low-balling in simple terms. The chart refers to the total fees charged by the auditors, whether it be only audit fees or a combination of audit and non-audit engagement fees or just non-audit engagement fees:

Client – Company XYZ Limited	Annual Turnover of Company XYZ Limited	Financial year ending 31 December.....	Total Fees (Audit and Non-audit Engagement)	Total Fees as a percentage of Annual Turnover
Auditor A	€1,000,000	2000	€50,000	5.00%
	€1,250,000	2001	€55,000	4.40%
	€1,600,000	2002	€60,500	3.78%
	€2,000,000	2003	€66,500	3.33%
	€2,400,000	2004	€73,200	3.05%
Auditor B	€3,000,000	2005	€60,000	2.00%
	€3,800,000	2006	€66,000	1.74%
	€4,700,000	2007	€72,000	1.53%
	€6,000,000	2008	€80,000	1.33%
	€7,500,000	2009	€90,000	1.20%
Auditor C	€9,300,000	2010	€70,000	0.75%
	€11,600,000	2011	€77,000	0.66%
	€14,500,000	2012	€85,000	0.59%
	€18,000,000	2013	€93,000	0.52%
	€22,000,000	2014	€103,000	0.47%
Auditor D	€28,000,000	2015	€90,000	0.32%
	€35,000,000	2016	€100,000	0.29%
	€44,000,000	2017	€110,000	0.25%

Assumptions used

- Turnover increases annually by approximately 25%
- Total fees of the auditors increase annually by approximately 10%
- Client appoints new auditing firm every 5 years
- Auditors perform audit and non-audit service to this client.

Based on the chart above, one can see that audit fees do not increase in line with the increase in turnover of the company. An increase in turnover of the company is a clear indication that the number of transactions in a company has increased. Therefore, the amount of work for auditing purposes or any other non-audit services should also be more.

Furthermore, the International Auditing Standards and International Financial Reporting Standards have become more onerous over the years and I have not yet seen Accountants and Auditors increase their fees because new standards have become applicable. This excludes the regulatory compliance per country that should also be adhered to, which naturally changes over time and becomes more stringent. It is just logical that fees should naturally be increased as these Regulatory Standards change so that the Accounting and Auditing Professionals can continue provide the level of service in compliance with these ever-changing Regulatory Standards.

Based on own personal experience in Public Practice since I started working in the industry in 1998, these are the following issues I have seen and experienced first-hand from various firms:

- a) Clients tend to request lower fees at the initial meeting. They always want to know if it will be lower than the previous auditor/accountant.
- b) Clients will even dispute agreed-upon fees charged once it has been invoiced after the service has been rendered. Clients always expect a high-quality service for the least amount of fees.
- c) Clients play accountants and auditors and tax consultants off against one another to be able to pay the lower fee.
- d) Fees are never raised when legislation changes or when new International Standards are set.
- e) Fees are raised annually in line with inflation rate, approximately 5% to 10%.
- f) When clients plan on moving to a new auditor/accountant, it has become standard practice to charge fees lower than the previous auditor/Accountant. The general practice is then to make up whatever losses are suffered in the first year in subsequent years by providing additional services to the clients.
- g) In most cases the actual time spent on a case is never fully recovered from a client. The traditional recovery rate per case has always been in the region of 66% to 70%. Thus, the accounting/auditing firm always suffers a loss of 34% to 30% per service delivered.
- h) When one does the work properly, follow all the procedures and spends the time allocated to the work productively, the client is not willing to pay the fees even if the practitioner can prove that the fees are fully justified.
- i) In practice, auditors tend to rush an audit job to stay within the tight constraints of a pre-determined or quoted fee. Clients find it hard to understand why fees should be raised if additional issues are found during an audit, especially when fees are time-based.
- j) Documenting all procedures in a qualitative and logical manner is also not done properly because of the time constraint to complete one task to start with the next task.
- k) Audit Committees of the larger organisations set their budget for audit fees and would most likely choose an auditor that will quote fees that are within their pre-determined budget.
- l) Smaller organisations do not necessarily budget for audit or accounting fees and thus will always complain that such fees are high.

Granted there are safeguards that a firm can put in place to try and get fees on par, but in my opinion, it is still not enough and accountants and auditors in Public Practice are fighting a losing battle.

In South Africa the controlling bodies of other professions have set their standards in terms of what amount of fees should be charged.

- Architects can charge 7% to 12% of the total estimated value of the project. As the value of a construction project increases over the time of the project so does the fees of the Architect assigned to the project.
- Quantity surveyors also have a percentage-based fee charge based on the project value. Their fees are based on a sliding scale of the project value.
- Advocates charge a fee of between R35000 to R65000 per day in court. This excludes the fee charged for preparation for the cases. The fees charged by lawyers and advocates are also prescribed by the various Law Societies for most tasks. Conveyancing fees are charged on a prescribed sliding scale based on the value of the property to be transferred.
- Doctors and Specialists in the medical field also have fees that are locally quite uniform. There are lower rates that can be charged if they are contacted to charge medical aid fund rates but in general the doctors and specialists are not contracted with the medical aid funds and can therefore charge higher rates. Consultation fees for 15 minutes are at a higher rate for Specialists than with Doctors.

Our fees in the auditing and accounting profession are clearly not in line with the requirements of our profession and the amount of risk that auditors and accountants should take in the profession when providing auditing or non-auditing services to the clients.

There are countries where their Auditing or Accounting Controlling Bodies have set prescribed fees for audit and non-audit services. These countries are:

- a) Institute of Chartered Accountants of Nigeria (ICAN)
<http://www.icanig.org/ican/documents/SPF.pdf>
- b) Institute of Chartered Accountants of India (ICAI)
<https://www.aubsp.com/fees-charged-by-chartered-accountants/>
(Refer to the Addendum enclosed).
- c) The Malaysia Institute of Accountants (MIA)
<http://www.nbc.com.my/new-audit-fee-schedule.html>
(Refer to the Addendum enclosed).
- d) The Institute of Chartered Professional Accountants of Kenya (CPAK)
<https://www.icpak.com/audit-fee-guidelines/audit-and-professional-fees-guidelines-e-connect-09-10-2015/>
(Refer to the Addendum enclosed).

In Nigeria it is regarded as professional misconduct to charge fees below the prescribed minimum fee.

In our SAICA Code of Professional Conduct in South Africa the following is written in paragraph 240.1:

*“When entering into negotiations regarding professional services, a chartered accountant may quote whatever fee is deemed appropriate. **The fact that one chartered accountant may quote a fee lower than another is not in itself unethical.** Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.”*

The way this paragraph has been worded still leaves scope for low-balling or a low level of fees being quoted just to keep or lure the client. Whereas in Nigeria, to charge lower fees than the prescribed minimum fee is unethical and regarded as professional misconduct.

The results of unregulated, unprescribed and consistent low fees have over the years had the following outcomes:

1. Auditors have no real reason or basis to impose audit fees as to allow them to do a full audit because audit fees are not backed up by the controlling bodies.
2. Clients use this “free for all” attitude to constantly move to where they can find a lower fee. First time audits never cut to the core of what a client really does in terms of standards set for the industry and material aspects can easily be missed. Our experience shows that with every subsequent audit done by the same auditor, if done correctly, reveals points missed on the previous audits.
3. Lower fees cause auditors to take short cuts during audits just to stay within their budget and hopefully make a small profit. That is the main reason why material aspects in an audit are missed.
4. The independence requirement is hugely hampered by low fees imposed for the audit as auditors are not remunerated enough to uphold independence. Rush audits are hereby promoted which causes material mistakes to go undetected.
5. The credibility of the auditor is diminished or eroded by doing substandard audits just to stay within a low budget. This is clearly visible when firms go bankrupt after big audit firms have supplied unqualified audit reports. It makes the auditor look bad. Proper prescribed fees shall allow auditors enough scope to do a proper audit.
6. Unregulated or unprescribed fees will have the ultimate effect that the audit profession will lose substantial interested new entrants and may even be the cause of auditors going out of business completely as regulation can easily be done by other independent regulatory bodies such as compliance officers in the financial sector, or any such alternative bodies that may be created in future as a result of government regulations.

The same outcomes above apply even to non-audit services.



If the auditors do not get it right someone else will have to. So, to preserve the role an audit firm plays, it is vital that the same procedure is followed by the Accounting and Auditing Controlling Bodies to regulate the prescribed fees an auditor or accountant should charge for any type of work done, just as the controlling bodies for Architects and other professions do.

In my opinion, the IESBA should consider requesting all Accounting and Auditing Controlling Bodies of the various countries in the world to set the prescribed minimum guidelines for fees such as the above four Institutions have done. To set a prescribed minimum fee based on time alone is not enough. The four institutions above have even set minimum fees for various other services such as Registrations for various taxes, filing of returns for various taxes. Audit fees have either been set on a daily rate (Institute of Chartered Accountants in India) or even at a sliding scale rate based on gross turnover and assets of a company (Malaysia Institute of Accountants).

Minimum hourly rates have also been prescribed for other services.

The IESBA should especially take note of the fact that Nigeria states that is indeed unethical and considered professional misconduct to charge lower fees than the prescribed minimum fees.

To set prescribed minimum fees will raise the standard of conduct for all Accountants and Auditors in the Public Practice around the world. Independence will also be safeguarded in a huge way, and Accountants and Auditors will be able to perform their duties in full compliance with the exceptionally high International Standards that we all should adhere to.

In my own firm I have spent countless hours to research and establish a policy whereby I charge fees based on actual work performed, which does vary per client. I am willing to be available for consultation with the IESBA and IFAC regarding this matter to assist in establishing clear guidelines for the various Controlling Bodies to follow.

I trust you will take into consideration what I have written here because I strongly believe that regulated and prescribed fees will have a huge impact in restoring independence and ethical compliance for Accountants and Auditors to the high standard that is expected by the public.

Yours faithfully

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