

# Agenda Item 5-A

## Fees – Issues and Working Group Proposals

### Purpose of This Paper

1. The purpose of this paper is to provide an update on the Fees Working Group's (WG's) activities since the March 2017 IESBA meeting, including its recent considerations about how best to progress its outreach to key stakeholders with a view to draw out their perspectives about actual and perceived fee related issues.

### Background and Recap of IESBA March 2017 Discussion

2. During its March 2017 meeting, the IESBA considered the stakeholder outreach proposed by the WG and provided input to the draft stakeholder list and draft questions to be directed to each stakeholder group. Amongst other matters, the WG received the following key messages:
  - The structure and content for the draft questionnaires require further improvement to ensure that the responses are balanced and include enough information to provide context to respondents.
  - The WG should consider seeking external expertise in drafting the questions.
  - The timing for the release of the questionnaires needs to be reviewed to avoid an overload of IESBA surveys, in particular in light of the planned timing for the [IESBA Strategy Survey Questionnaire](#).
  - The list of stakeholders should be further expanded, in particular to include more investors.
  - The WG should consider how to optimize the response rate among stakeholders in light of concerns that are inherent to the topic of fees. For example, the IESBA noted that the WG should be mindful that:
    - Regulators, national standard setters (NSS), firms may be reluctant to provide written responses due to privacy, confidentiality and other legal reasons.
    - Investors and those charged with governance (TCWG) might not have enough context to properly understand how to respond to the questions, or may be too busy to respond in writing.
  - The PIOB Observer noted that fees continue to be an important topic for the PIOB and that it is necessary to also address perception related issues.

### Activities since the March 2017 IESBA Meeting

3. The WG has taken on the advice of the IESBA and the Planning Committee and agreed to postpone the dissemination of the fee questionnaires in order to avoid stakeholder overload in light of the other consultation documents that will be opened for comment through July 2017. Accordingly, the WG is planning to disseminate the questionnaires by October 2017 and as a result will defer presenting its final recommendations to the IESBA to March 2018.

### *Approach to Stakeholder Outreach*

4. The WG has been exploring a number of approaches in response to the IESBA's concerns about their planned approach for the stakeholders outreach. In particular, the WG has revisited their plan to use questionnaires, the content of the specific questions being asked of each stakeholder group, and how best to engage those stakeholders in order to maximize a response rate. The WG initially planned to

disseminate questionnaires to some key stakeholder groups (i.e., firms, TCWG, investors, NSS, regulators and audit oversight bodies). In response to the IESBA's concerns about the low likelihood of regulators, audit oversight bodies and NSS responding, the WG considered whether the questionnaires should be sent to only three stakeholder groups instead (i.e., firms, TCWG and investors). The WG's rationale was that:

- There should be a strong focus on understanding the perspective of TCWG and investors as they are most likely to provide new information that the IESBA may not have previously considered and that their views may provide important insights on some of the observations cited in Professor Hay's [summary of academic research paper](#).
  - Despite confidentiality concerns, it might be beneficial to obtain written views about the firm's perspective on fee-related matters.
5. The WG also explored the option of hosting moderated invitation only global roundtables similar to those conducted in 2014 for the NOCLAR projects. The NOCLAR roundtables were one-day events held in three locations across Europe, Asia and North America with a broad spectrum of stakeholders participating in the discussions.
6. The WG was of the view that those roundtables might be a useful forum to bring together stakeholders with diverging views to share their perspectives on specific aspects of fee-related issues, and might allow for more thorough understanding each stakeholder's viewpoints (in particular, regulators, firms, TCWG, and investors) and would facilitate an exploration of practical and pragmatic solutions.
7. In assessing the feasibility and usefulness of global roundtables as an outreach activity for the fees initiatives, the WG discussed the following:
- There is a need for clear goals and expectations about what the roundtables would aim to achieve given the costs and resourcing required to organize and facilitate them on a global scale.
  - Given the sensitive nature of fee-related issues, and limited access to the underlying details that form the basis for public inspection reports more broadly:
    - Regulators and audit oversight bodies may not be forthcoming in providing new information that goes beyond what is publicly available in a roundtable setting.
    - Firms may be hesitant about disclosing information about fees charged to their clients, the ratio of fees from audit work versus non-assurance work (i.e., their business models), or any other internal data relating to fees, including information about how they identify, evaluate and address specific threats to compliance with the fundamental principles and to independence created by fees.
  - There may not be sufficient interest or incentives from the appropriate individuals to participate as expert panelists or participants in the roundtables.
  - Summarizing the wide range of views expressed in a succinct and balanced manner that also provide transparency for the purpose of making a decision about whether or not the IESBA should undertake a fee standard setting project may be very challenging.

#### *WG Response*

8. The WG considered some known limitations to using questionnaires including:

- Difficulty in providing the right balance of information that will provide sufficient context to prospective respondents;
- Inability to ask follow-on questions not answered, or incorrectly answered.
- Low response rates due to competing priorities that might exist for targeted stakeholders.
- Reluctance of some stakeholders providing detailed or meaningful information.

However, the WG maintains its view that the use of questionnaire is the most practical, transparent and cost-effective way to draw out more specific perspectives from all stakeholder groups about actual and perceived fee-related issues.

9. The WG concluded that it is premature to have global roundtables on the topic of fees and that the results of the questionnaires may provide valuable input about the nature and focus of questions that might be asked during future global fee roundtables. The WG believes that there may be merit in having roundtables at a later stage in the project (i.e., after the WG has finalized its recommendations, or if the IESBA decides to undertake a fees project).

#### *Revisions to Questions to Stakeholders*

10. IESBA Technical Advisor, Dr. Eva Tsahuridu, has been assisting the WG revise the design and content of the questionnaires in order to overcome some of the limitations summarized in paragraph 9 above. The WG is still in the process of revising the specific questions in those questionnaires, but has agreed to the following:
  - The questionnaires will include tailored questions aimed at obtaining specific information from each stakeholder group.
  - Each questionnaire will be simple, and will include mostly close-ended questions with a few open ended ones so that they are not onerous for prospective respondents to complete.
  - Respondents will be provided an opportunity to share evidence as part of their responses. The information can be de-identified, if necessary, to protect the privacy of the persons or entities involved.
  - The questionnaires will provide respondents the flexibility of responding as an individual or on behalf of their organization.
11. The WG hopes to use the information received from respondents to determine the basis for fee-related concerns and to make evidence-based decisions in finalizing its fact-finding. The WG envisages that it will need to take into account other factors, such as the number of respondents and stakeholder groups sharing the same view.
12. The WG is planning to leverage the professional networks of the IESBA, IAASB and IFAC to identify individuals, organizations and groups to whom the fee questionnaires might be disseminated. The WG is also exploring the benefits and drawbacks of partnering with an IFAC member organization to jointly manage the administration and dissemination of the questionnaires, once it finalizes the questions.

## Other Matters

### *Recap of Issues Identified To-Date*

13. The WG believes the stakeholder outreach is a key aspect of its fact-finding and is critical to assessing the validity of the concerns being raised about fee-related matters, and to obtain views about how those concerns might be addressed. To-date, the WG notes that the fee-related issues that are of concern to some stakeholders are varied and range from whether:
  - The amount of fees charged by firms for audit engagements is enough to enable the audit firm to provide a high quality audit (i.e., downward pressure on audit fees).
  - The fees charged for certain NAS that are provided to audit clients create actual or perceived threats to auditor independence that can only be addressed by ending either the NAS or audit engagement (i.e., whether some firms are inappropriately applying safeguards to address threats created by providing NAS to audit clients).
  - There are actual or perceived risks to the quality of audits that are conducted by firms that receive a significant portion of total firm revenues from the fees that are charged to “non-audit clients” for “non-audit” work (i.e., firm business model issues).
14. Related to the issue discussed in the third bullet in paragraph 13, the WG notes from a recent PCAOB member speech that regulators continue to express concern about the accelerating growth of consulting services in firms that also perform audits.<sup>1</sup>
15. Questions have been raised about whether a possible response to fee-related issues might be to have more robust requirements for auditor communications with TCWG in the Code. For example, it was suggested that the Code should repeat the requirements relating to required auditor communications with TCWG about matters that might reasonably be thought to bear on independence that is already included in the IAASB’s International Standards.<sup>2</sup> In this regard, the WG notes that the recent PCAOB inspection

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<sup>1</sup> See May 2017 Speech by PCAOB Board Member, Steve B. Harris titled, [Earning Investor Confidence](#).

<sup>2</sup> The proposed restructured Code retains the general requirements in the extant Code relating to communications with TCWG and communications about independence breaches to TCWG, but is not as specific as PCAOB Rule 3526 (See proposed Part 3, *Professional Accountants in Public Practice*, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*, paragraphs R300.9- 300.10 A1 and proposed Section 400, *Applying the Conceptual Framework to Independence and Reviews*, paragraphs 400.83 A1–R400.87). The International Standards on Auditing, (ISA) 260 (Revised), *Communicating with Those Charged with Governance*, paragraph 17(a)(i) states that:

“In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
  - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
  - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

findings of non-compliance with similar requirements seem to suggest that there might be challenges to their effectiveness.<sup>3</sup>

16. The WG notes that in its April 2017 IESBA Strategy Survey Questionnaire, the IESBA is seeking views about the topic of communications with TCWG whether it should be prioritized as a project or initiative involving a consideration of:
  - Whether to require specific matters to be covered in communications with TCWG.
  - The role, if any, of TCWG in approving NAS provided to audit clients.
17. Amongst other matters, the WG believes that the feedback on the IESBA Strategy Survey Questionnaire might be relevant in understanding how to respond to certain fee-related issues.

#### *Challenges Anticipated and WG Reactions*

18. The WG recognizes that the topic of fees is controversial because it is a sensitive discussion point for many stakeholders. Critical to the WG's understanding of the fee-related concerns raised is access to the underlying information in audit inspection reports; the conditions, policies and procedures that firms have in place to identify, evaluate and address threats created from fees charged, in particular any safeguards that firms and network firms apply to address those threats.
19. The WG notes that regulators, audit oversight bodies, firms and NSS might be restricted because of privacy, confidentiality and other legal reasons to provide information beyond what is publicly available to corroborate the concerns that have been raised. The WG acknowledged the possibility that its planned stakeholder outreach activities might result in stakeholders providing additional views and perspectives that may not provide tangible evidence. On that basis, the WG reflected further about the laws, regulations or other measures that have been put in place in the G-20 jurisdictions to address fees-related issues and whether they should be adopted by the Code. These include, for example, fee caps for the provision of non-audit services to audit clients, approval or pre-approval of fees for non-audit services by TCWG, and approval or pre-approval for the provision of non-audit services by TCWG.
20. The WG believes that it is premature to formulate a view about whether and how the Code should be changed and instead is planning to defer a conclusion until after a consideration of:
  - The feedback from the June 2017 IESBA-National Standards Setters Liaison meeting session on the topic of fees.
  - Relevant information from the responses to the IESBA Strategy Survey Questionnaire and respondents to the Safeguards ED-2.
  - The responses to the fee questionnaires.

The WG plans to include its view as part of its final recommendation.

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<sup>3</sup> PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, requires the auditor annually to provide the audit committee with a written description of relationships that “may reasonably be thought to bear on independence.” While auditors must exercise sound judgment in carrying out their responsibilities, the determination necessary under Rule 3526 requires the auditor to consider how a reasonable third party, not the auditor, would view the relationship. (See PCAOB Release No. 2008-003, Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, (April 22, 2008)). See inspection finding in Staff Inspection Brief: [Preview of Observations from 2015 Inspections of auditors of Issuers](#).

**Matters for IESBA Consideration**

1. IESBA members are asked for views about the WG's activities summarized in this paper, including:
  - (a) The approach on revising the questions to stakeholders;
  - (b) The challenges highlighted by the WG and its reactions; and
  - (c) The new timing for the presentation of the WG's final recommendations.
2. What other actions, if any, do IESBA members believe that the WG should be undertaking now as part of its fee fact-finding activities?

**Next Steps**

21. The WG will disseminate the questionnaires to the various stakeholder groups by October 2017. The WG plans to allow a 90-day comment period for responses to the fees questionnaires. Subsequent to the close of the comment period, the WG plans to include its summary and analysis of the responses received in its final report that will be presented to the IESBA for its consideration in March 2018.