

## Fees – Proposed Consequential and Conforming Amendments to Part 4A

(Mark-up from Extant Code)

### SECTION 120

#### THE CONCEPTUAL FRAMEWORK

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#### Considerations for Audits, Reviews and Other Assurance Engagements

##### *Independence*

120.12 A1 Professional accountants in public practice are required by International Independence Standards to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (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 that a firm’s or an audit or assurance team member’s integrity, objectivity or professional skepticism has been compromised.

120.12 A2 International Independence Standards set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

120.12 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, further examples of such conditions, policies and procedures include:

- The existence of a quality management system designed and implemented by a firm in accordance with [proposed] ISQM 1.
- An independent committee to advise on governance matters which might impact the firm’s independence.

## SECTION 270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

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#### Requirements and Application Material

##### General

**R270.3** A professional accountant shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- (b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure from others that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

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270.3 A3 An example of pressure placed on others that might result in threats to other individuals' compliance with the fundamental principles would be pressure exerted on another professional accountant to provide professional services at a fee level that did not allow for sufficient and appropriate resources (including human, technological and intellectual property resources) to perform the services in accordance with professional standards.

270.3 A~~4~~3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
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## SECTION 330

### FEES AND OTHER TYPE OF REMUNERATION

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#### Application Material

##### Level of Fees

330.3 A1 The level of fees ~~quoted~~ might impact a professional accountant's ability to perform professional

services in accordance with professional standards.

- 330.3 A2 A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- (a) Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are ~~determined~~ ~~charged~~ and which professional services ~~are the quoted fee covers~~.
  - (b) Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- (a) Adjusting the level of fees or the scope of the engagement.
  - (b) Having an appropriate reviewer review the work performed.

330.3 A5 Requirements and application material related to the level of fees for audit or review engagements, and other assurance engagements are set out in the *International Independence Standards*.

## SECTION 320

### PROFESSIONAL APPOINTMENT

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#### Requirements and Application Material

##### Client and Engagement Acceptance

###### *General*

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.
- 320.3 A2 ...
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
    - The nature of the client's business;
    - The complexity of its operations;
    - The requirements of the engagement; and
    - The purpose, nature and scope of the work to be performed.
  - Knowledge of relevant industries or subject matter.
  - Experience with relevant regulatory or reporting requirements.
  - The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

- The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant’s commercial and market priorities and position.

320.3 A5 Examples of actions that might be safeguards...

## **SECTION 400**

### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

#### **Introduction**

##### **General**

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

400.3 In this Part ....

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