

Fees – Proposed Consequential Amendments to Part 4B of the Code

[Mark-up from Part 4B (Revised) Approved in September 2019]

SECTION 905**FEES****Introduction**

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 ~~The nature and level of F~~ees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material**General**

905.3 A1 The purpose of an assurance engagement is to enhance the degree of confidence of intended users other than the responsible party about the subject matter information. The firm is therefore required to be independent of both the responsible party and the party responsible for the subject matter information. Where the fees for the assurance engagement are also negotiated with and paid by the assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

Evaluating Threats

R905.4 Before a firm accepts an assurance engagement, the firm shall determine whether the threats to independence created by the fees proposed to the assurance client are at an acceptable level. The firm shall also make such determination where appropriate during the period of the assurance engagement if circumstances change.

905.4 A1 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:

- The nature of the assurance engagement and the involvement of the client and other parties with respect to the underlying subject matter or subject matter information.
- Whether there is external review of the firm's system of quality management.
- The level of the fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities and position.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The significance of the client to the firm.

- The nature of the client.

905.4 A2 The consideration of the factors in paragraphs 120.12 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with [proposed] ISQM1) and 905.4 A1 in the evaluation of the threats might often lead the firm to conclude that the threats are at an acceptable level.

905.4 A3 The requirements and application material that follow address circumstances where some of the factors in paragraph 905.4 A1 need further consideration in evaluating whether the threats are at an acceptable level. For those circumstances, there are examples of additional factors that are relevant in identifying and evaluating the level of threats.

Level of Fees for Assurance Engagements

905.5 A1 Determining the level of fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

905.5 A2 In addition to factors identified in paragraph 905.4 A1, factors that are relevant in evaluating the level of the threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether there is a pressure applied by the client to reduce the fee for the assurance engagement.

905.5 A3 An example of an action that might be a safeguard to address such threats is having an appropriate reviewer who was not involved in the assurance engagement review the work.

Contingent Fees

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.7 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.8 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.8 A1 ~~Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client.~~ Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee

depends.

- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.8 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Fees—Overdue

905.9 A1 ~~The level of the self-interest threat might increase if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement. A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued.~~ The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

905.9. A2 ~~A self-interest threat might also be created if a party other than the assurance client is responsible for paying the fees for the assurance engagement and fees payable by that other party are overdue.~~

905.9 A3 ~~Factors that are relevant in evaluating the level of such a self-interest threat include:~~

- ~~The significance of the overdue fees to the firm.~~
- ~~The firm's assessment of the ability and willingness of the client or other relevant party to settle the overdue fee.~~

905.9 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.10 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Fees—~~Fee Dependency~~Relative Size

905. ~~113~~ A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on ~~that client~~ and concern about the potential loss of fees from that client ~~increase the level of the~~ ~~losing the client create a~~ self-interest ~~threat and create an or~~

intimidation threat.

905.11 A2 Self-interest and intimidation threats are also created in the circumstances described in paragraph 905.11 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.

905.11 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

905.~~113~~ A42 Factors that are relevant in evaluating the level of such threats include:

- The operating structure of the firm.
- The qualitative and quantitative significance of the assurance client to the firm.
- Where the firm is expected to expand such that the significance of the client is likely to reduce.
- ~~The operating structure of the firm.~~
- ~~Whether the firm is well established or new.~~
- ~~The significance of the client qualitatively and/or quantitatively to the firm.~~

905.~~113~~ A53 ~~An E~~examples of ~~an~~ actions that might be ~~a~~ safeguards to address such ~~a~~ self-interest and ~~or~~ intimidation threats ~~is~~ include:

- Increasing the client base in the firm to reduce dependence on the assurance client.
- Reducing the extent of services other than assurance engagements provided to the client.

905.~~113~~ A64 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

905.~~113~~ A75 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- Increasing the client base of the partner to reduce dependence on the assurance client.
- Ensuring that the compensation of the partner is not significantly dependent on the fees generated from the client.
- Having an appropriate reviewer who was not an assurance team member review the work.