

Fees – Proposed Consequential Amendments to Part 4B of the Code (Mark up from Extant)

This document includes consequential amendments to Section 905 of Part 4B of the Code¹, in line with the proposed changes of the Task Force to Section 410 in Part 4A of the Code². The Task Force does not consider that it is necessary to extend to assurance engagements other than audit and review engagements the proposals in Part 4A that relate to

- the specific role of the audit fee,
- the proportion of overall fees and
- provisions relevant only for PIE audit clients.

The Task Force has had some preliminary consultations with the ISAE 3000 Task Force concerning the Alignment of Part 4A and Part 4B, particularly the implications of the proposed changes to fee-related provisions to assurance engagements, noting the definition of assurance client refers to the responsible party and also the party responsible for the subject matter information. The Task Force plans to continue this consultation after the September 2019 IESBA meeting.

After the September 2019 IESBA meeting, the Task Force will mirror in Part 4B the relevant changes made to Part 4A based on the comments provided by IESBA members. Furthermore, the Task Force will consider whether any alteration is necessary to the consequential amendments differing from the proposed changes in Part 4A based on the definition of assurance client which encompasses different parties to the assurance engagement.

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 Fees or other types of remuneration are commonly a significant driver of behavior. In the context of an assurance engagement, fees (for both assurance engagements and other services) can influence independence of mind and the level of these fees can also adversely impact perceptions of independence from the perspective of a reasonable and informed third party. Therefore, when fees are paid to the firm by the assurance client they create threats to independence. The type and level of threat will depend on the nature and level of fees or other types of remuneration. However, because a firm is required to be independent when performing assurance engagements and have in place a system of quality management that is designed, among other matters, to provide it with reasonable assurance in relation to

¹ International Independence Standards, Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Section 905, *Fees*

² International Independence Standards, Part 4A – Independence for Audit and Review Engagements, Section 410, *Fees*

~~compliance with independence requirements, threats created when fees are paid by an assurance client to the firm will often be at an acceptable level. The nature and level of fees 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 ~~Determining the level of fees to be charged to an assurance client, whether for assurance engagement or other services, is a business decision of the firm taking into account all the facts and circumstances relevant to that specific engagement, including the requirements of professional standards.~~

Nature and Level of Assurance Fees

Level of Fees for Assurance Engagement

R905.4 ~~A firm shall be satisfied prior to the conclusion of the assurance engagement that the level of the fee for the assurance engagement did not compromise the firm's independence and hence its ability to perform the assurance engagement in compliance with the fundamental principles and in accordance with professional standards.~~

Contingent Fees

905.5 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.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 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.

905.7 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.

905.7 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.

905.7 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—Relative Size

905.83 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 losing the client create ~~a self-interest~~ and of intimidation threats.

905.8 A2 In calculating the total fees of the firm in this section, the firm might use financial information available from the previous financial year and estimate the proportion based on that information.

905.83 A32 Factors that are relevant in evaluating the level of such threats include:

- 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.~~

905.83 A43 ~~An E~~Examples of ~~an~~actions that might be a safeguard to address such ~~a self-interest~~ and of 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 engagement provided to the client.

905.83 A54 ~~A s~~Self-interest ~~and of~~ intimidation threats are 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.

905.83 A65 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.

Fees—Overdue

905.94 A1 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 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fee to the firm.
- The firm's assessment of the ability and willingness of the client to settle the overdue fee.

905.~~94~~ ~~A32~~ 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.

R905.105 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.