

Agenda Item 10 (a)

Revised proposed paragraphs for proposed Amending Standard on Fees

AUST 410.14.1 A1 ~~Another~~ party or Firm may refer multiple Audit Clients to an Engagement Partner, an Office of a Firm or a Firm. The dependence on that source and concern about losing those clients creates a self-interest or intimidation threat. Paragraphs 410.14 A3 and 410.14 A6 provide examples of factors that are relevant in evaluating the significance of the threat and paragraph 410.14 A7 provides examples of actions that might be safeguards.

Commented [JH1]: Guidance para from ED retained but to align with IESBA style drafting has been moved above requirement paragraph and mimics the lead in sentence on evaluating threats and actions that are safeguards

AUST R410.14.2 ~~When~~ for each of five consecutive years, total fees in respect of multiple Audit Clients referred from one source represent more than 30% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions, the Firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an Acceptable Level, and if so, apply it:

Commented [JH2]: To be consistent with IESBA drafting, have amended proposed para AUST R410.14.1 to be consistent with the proposed para R410.15. Key changes are the use of the 30% threshold, the inclusion of time as a factor, and the need to complete an appropriate review or compliance engagement.

- (a) Prior to the audit opinions being issued on the fifth year's Engagements, have a ~~Member, who is not a Member of the Firm expressing the audit opinions,~~ perform options – 1. a review (undefined), 2. a review (as per ASQM2) or 3. a compliance engagement on the fifth year's audit work; or
- (b) After the audit opinions on the fifth year's Engagement have been issued, and before audit opinions are issued on the sixth year's Engagements, have a ~~Member, who is not a Member of the Firm expressing the audit opinions,~~ perform options – 1. a review (undefined), 2. a review (as per ASQM2) or 3. a compliance engagement on the fifth year's audit work.

The Member in Public Practice who performs [a review or compliance engagement] when fee dependency is at the Firm level shall not be a Member of the Firm expressing the audit opinions. If the fee dependency is for an Engagement Partner or an Office of the Firm, the compliance engagement shall be conducted by a Member who was not involved in the Audit Engagements.

[Relevant for option 2 or 3]

AUST 410.14.2 A1 The [review or compliance engagement] referred to in paragraph AUST R410.14.2 is [a review or an Assurance Engagement] in accordance with [ASQM 2 Engagement Quality Reviews or ASAE 3100 Compliance Engagements], to opine on the firm's compliance with applicable professional standards, laws and regulations.

Commented [JH3]: New guidance paragraph to provide context on the review or compliance engagement in the redrafted para AUST R410.14.2

AUST R410.14.3 ~~If~~ the total fees described in paragraph AUST R410.14.2 continue to exceed 30% after the fifth year, the Firm shall each year determine whether either of the actions in paragraph AUST R410.14.2 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the Firm from the client, and if so, apply it.

Commented [JH4]: New requirement paragraph (based on proposed R410.16) to clarify the action to be taken if fee dependency continues past 5 years

Copy of related paragraphs as included in ED 03/21

Key provisions on fee dependency on a referral source

AUST R410.14.1 When the total fees in respect of multiple **Audit Clients** referred from one source represent more than 20% of the total fees of the **Engagement Partner**, an **Office** of the **Firm** or the **Firm** expressing the audit opinions, the **Firm** shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an **Acceptable Level**.

AUST 410.14.1 A1 Another party or **Firm** may refer multiple **Audit Clients** to an **Engagement Partner**, an **Office** of a **Firm** or a **Firm**. The dependence on that source and concern about losing those clients creates a self-interest or intimidation threat. Paragraph 410.14 A3 provides examples of factors that may affect the significance of the threat and paragraph 410.14 A7 lists potential safeguards that may be applied.

Other provisions relating to relevant safeguards and fee dependency on a single audit client

410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the Audit Engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or Office to the Audit Client.
- Increasing the client base of the partner or the Office to reduce dependence on the Audit Client.
- Increasing the extent of services provided by the partner or the Office to other clients.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an **Audit Client** that is not a **Public Interest Entity** represent, or are likely to represent, more than 30% of the total fees received by the **Firm**, the **Firm** shall determine whether either of the following actions might be a safeguard to reduce the threats created to an **Acceptable Level**, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's **Financial Statements**, have a **Member**, who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements**, review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's **Financial Statements** has been issued, and before the audit opinion is issued on the sixth year's **Financial Statements**, have a **Member**, who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements**, or a **Professional Body** review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the Firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the Firm from the client, and if so, apply it.