

In this Klip, we will cover:

2. Fees

The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. The Code sets out specific requirements and application material relevant to applying the conceptual framework when such threats arise.

Applicable to all audit clients

When the total fees generated from an audit client by the firm expressing the audit opinion represents 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 or intimidation threat.

Threat is also created when the fees generated by a firm from an audit client represents a large proportion of the revenue of one partner or one office of the firm.

What are the factors to consider in evaluating this threat?

Factors include:

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client, either qualitatively and/or quantitatively to the firm.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

Examples of actions that might be safeguards to address this threat, include:

- a. Increase the client base in the firm or of the partner to reduce dependence on the client.
- b. Having an appropriate reviewer who did not take part in the audit engagement, to review the work.

Audit clients that are Public Interest Entities:

Where an audit client is a public interest entity and, for two consecutive years, the total fees from that audit client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

- i. Disclose to TCWG; and
- ii. Discuss whether any actions that might be safeguards to address this threat should be applied, and if so, apply it.

Actions may include:

A pre-issuance or post-issuance review performed by a professional accountant, who is not a member of the firm expressing the opinion or by a professional body.

With this we come to the end of the KLiP. We will cover topics like fees overdue and contingent fees in our next KLiP.

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