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Via e-mail: ethics-exposedraft@aicpa-cima.com

Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707

Re: Unpaid Fees

Dear Professional Ethics Division and Members of the Professional Ethics Executive Committee:

BDO USA, LLP, appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) proposed revised interpretation to the Code of Professional Conduct (the Code), titled, *Unpaid Fees* (proposed revised interpretation). Our comments on the proposed revised interpretation follow.

We support the PEEC’s endeavor in setting high-quality and robust independence and ethics standards for the accounting profession in the United States. Further, we understand the importance of the PEEC’s efforts to converge with the International Ethics Standards Board for Accountants’ (IESBA) Code of Ethics. However, overall, BDO does not support the proposed revised interpretation. We have provided commentary below.

General Comments

We believe a standard that includes a definitive time-period to be the most appropriate measure in assessing a firm’s independence concerning unpaid fees from an attest client. While we do appreciate principles-based independence standards, we do not believe that the safeguards provided in paragraph .04 would be sufficient in the instance where a member has past due fees from an attest client that have been outstanding for an extended period of time. We believe that the self-interest threat created when fees from an attest client remain unpaid for greater than one year are significant and could impair the auditor’s objectivity despite said safeguards. The “bright line test” that exists in the extant standard concerning the collection of unpaid fees not only protects stakeholders most effectively, but it also allows for clarity and consistency in the application of the standard.

We would also like to point out that the underlying reason for requiring that unpaid fees be paid prior to the issuance of the current year’s attest report is because the unpaid fees take on the characteristics of a loan. The AICPA Code prohibits any loans to an attest client regardless of whether the loan is immaterial or clearly insignificant. Accordingly, permitting unpaid fees from an attest client for an extended period, even if clearly insignificant, would be inconsistent with the treatment of loans to an attest client.



Finally, while we appreciate the Committee's efforts to converge with the IESBA Code of Ethics, in this instance, we believe the Committee should consider aligning the extant standard with the Securities and Exchange Commission's (SEC) 2004 Codification Section 602.02.b.iv, *Unpaid Prior Professional Fees*, which states as follows:

If fees for audit and other professional services are owed to an accountant for an extended period of time and become material in relation to the fee expected to be charged for a current audit, there may be a question concerning the accountant's independence.

Generally, prior year audit and other unpaid fees should be paid before a current audit engagement is commenced in order for the accountant to be deemed independent with respect to the current audit...

Normally, a question would not be raised in such instances if, at the time the current audit engagement is commenced, a definite commitment is made by the client to pay prior year fees before the current audit report is issued, or, an arrangement is agreed upon for periodic payments to settle the delinquent fees and there is reasonable assurance that the current audit fee will be paid before the commencement of the audit for the ensuing year.

We believe it would be most appropriate to require that when the current audit commences, the client has either paid any unpaid fees from the prior years' services or has committed to pay such fees before the issuance of the current year's audit report. We would also support consideration of a provision that would permit the client to make periodic payments to settle the prior years' fees if the member has reasonable assurance that the current year's audit fee will be paid prior to commencing the next year's audit. This would align the Code with the requirements of the SEC and create uniformity for members practicing in the United States.

Request for Comments

- a. **PEEC does not believe unpaid fees create advocacy threats, and, as such, proposes to eliminate this from the interpretation. Do you believe the advocacy threat is applicable to unpaid fees? If so, please explain.**

We agree that unpaid fees do not create advocacy threats.

- b. **Are the factors to consider when evaluating whether threats are at an acceptable level clear? Should any other factors be considered?**

We believe the factors to consider when evaluating whether threats are at an acceptable level are clear. However, we do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.



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c. Do you agree with the use of the terms “clearly insignificant” in paragraph .03 of the interpretation? Why or why not?

We understand the intended use of “clearly insignificant” in paragraph .03 of the interpretation, however, for reasons noted above, we do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.

d. Should any other safeguards be provided as examples in paragraph .04?

We are not aware of any other safeguards to be included in paragraph .04. As noted, we do not support the proposed principles-based evaluation of threats to independence regarding unpaid fees.

e. Are the safeguards in paragraphs .04a and 04.d clearly delineated? Why or why not?

While we agree that the safeguards in paragraphs .04a and 04.d are clearly delineated, we do not believe that the safeguards provided in paragraph .04 would be sufficient to mitigate threats in the instance when a member has past due fees from an attest client for an extended period of time. For example, we do not believe that an “appropriate reviewer” who was not involved in providing services to the client (.04a) could necessarily be objective when reviewing the attest work since the fees are owed to the firm itself.

f. Is it clear in paragraph .04f that communication with those charged with governance is not in itself a sufficient safeguard?

We do not believe it is clear that the proposed safeguard of communication with those charged with governance is not in itself a sufficient safeguard. If the Committee moves forward with the proposed interpretation, we suggest that paragraph .04f specifically state this.

g. Do you agree that a six-month delayed effective date provides adequate time to implement the proposal? If not, why, and what period would provide adequate time?

If the PEEC were to adopt the proposed revisions, we do believe a six-month delayed effective date would provide adequate time to implement the proposal.

We would be pleased to discuss our letter with you. If you would like to discuss our comments, please contact, Ms. Lisa A. Snyder, CPA (NJ), National Partner - Independence at (732) 734-3052 or lsnyder@bdo.com.

Respectfully,

/s/ BDO USA, LLP

BDO USA, LLP