

Q&A section 705, Unpaid Fees

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.01 The term “covered member” and the significance of unpaid fees

Inquiry — When determining whether unpaid fees impair independence, the evaluation needs to consider the significance of the unpaid fees to the *covered member*. Given how the code defines *covered member*, is it necessary to consider the significance of the unpaid fee amounts to, for example, both the firm and the engagement partner?

Response — Yes, the revised interpretation pertains to all *covered members*, including the firm and the engagement partner.

If the unpaid fees are significant to the firm, the unpaid fees will likely be significant to the engagement partner also. However, there could be a situation in which the unpaid fees are clearly insignificant to the firm but could be significant, quantitatively or qualitatively, to the engagement partner.

For example, some firms have compensation structures dependent upon fee collection. An unpaid fee near the firm’s year-end may be clearly insignificant to the firm but significant to the engagement partner. Suppose unpaid fees older than one year are due from the engagement partner’s attest client and those unpaid fees directly affect the engagement partner’s compensation. It is reasonable to believe this circumstance can create threats to the engagement partner’s independence.

.02 Comparison of safeguards related to unpaid fees for small and large firms

Inquiry — Paragraph .04 of the “Unpaid Fees” interpretation (ET sec. 1.230.010) provides examples of possible actions a firm can take to eliminate or reduce significant threats to independence. One such example is to have an appropriate reviewer who has not provided attest or nonattest services to the attest client review the attest work performed before the current-year attest report is issued. How would this safeguard be applied at a small firm versus a large firm?

Response — An “appropriate reviewer” is an individual qualified to review the attest engagement at a technical level and in the specialty practice area, if necessary, and who is not associated with providing services to the attest client. For a sole proprietor, this would likely require review by someone external to the firm. For a multipartner firm, an engagement quality control reviewer or a professional in a national office role are examples of an appropriate reviewer.

.03 Other situations with unpaid fees that require judgment about independence

Inquiry — The last sentence of paragraph .03 of the “Unpaid Fees” interpretation states that other situations may require judgment to assess whether there are threats to a covered member’s compliance with the “Independence Rule” (ET sec. 1.200.001). What is an example of another situation and how should the member approach it?

Response — One such example is if an audit client needs to obtain debt or equity financing in order to pay the firm’s fee and that financing depends on the issuance of an unmodified audit report by the firm.

If the *covered member* determines threats are not at an acceptable level, the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010) requires that safeguards, such as those in paragraph .04 of the “Unpaid Fees” interpretation, be applied to reduce threats to an acceptable level.

If safeguards cannot be applied to reduce threats to an acceptable level, the *covered member* should not complete the audit engagement.

If you are unsure how to apply the “Conceptual Framework for Independence” interpretation, the AICPA Professional Ethics Division has developed [a toolkit to help you](#).