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Invitation to comment

September 20, 2021

If you’re an AICPA member or someone interested in the ethics of auditing and accounting, we want to hear your thoughts on this exposure draft!

This proposal is part of the AICPA Professional Ethics Executive Committee’s (PEEC’s) 2021–23 Strategy and Work Plan.

This exposure draft is an explanation of the proposed revisions to the AICPA Code of Professional Conduct and the full text of the guidance being considered.

After the exposure period concludes and PEEC has evaluated the comments, PEEC may decide to publish the revised interpretation.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by December 20, 2021. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at www.aicpa.org/peecprojects. PEEC will consider comments at its subsequent meetings.

Please email comments to ethics-exposuredraft@aicpa.org.

You can also submit comments through our online form at aicpa.org/ethicscomments.

Sincerely,

Brian S. Lynch, Chair
Professional Ethics Executive Committee

Toni Lee-Andrews, Director, CPA, PFS, CGMA
Professional Ethics Division
Explanation of the revised interpretation

The Professional Ethics Executive Committee (PEEC) is exposing for comment a revision to the “Unpaid Fees” interpretation. If adopted as final, the revision will be in ET section 1.230.010 of the AICPA Code of Professional Conduct (the code) and will be applicable to members in public practice.

Purpose
1. PEEC undertook this project to
   a. review the “Unpaid Fees” interpretation to develop a principles-based framework for members to determine when unpaid fees impair independence.
   b. converge with other standard setters such as the IESBA and SEC.
   c. determine whether the current bright-line one-year approach continues to be appropriate, especially given the COVID-19 pandemic.

Overview
2. PEEC is proposing revisions to
   a. remove the reference to an advocacy threat because it is not applicable to unpaid fees.
   b. provide a principles-based framework to evaluate when unpaid fees may impair independence.
   c. provide factors to consider when evaluating whether threats to independence are at an acceptable level under the principles-based framework.
   d. provide examples of safeguards to eliminate the threat to independence or reduce it to an acceptable level.

Principles-based framework
3. The proposed revision replaces the bright-line one-year provision with a principles-based framework. Under this framework, the member will determine whether threats are at an acceptable level and, if not, determine if safeguards can reduce threats to an acceptable level. If safeguards cannot be applied to reduce threats to an acceptable level, then the member should discontinue the engagement until such time as threats can be so reduced.

4. The proposed factors used to determine the level of threats are
a. the significance of the fees to the covered member;
b. how long the fees have been outstanding;
c. the likelihood that the fees will be paid; and
d. the potential effects the situation will have on the auditor’s objectivity and appearance of the auditor’s ability to maintain independence.

5. Under the framework, threats are considered at an acceptable level when the unpaid fees are clearly insignificant and relate to services provided less than one year prior to the date of the current attest report.

6. If, however, one of these criteria is not met, threats may not be at an acceptable level and the member may need to implement safeguards to continue with the engagement.

7. When neither criteria in paragraph 5 is met, threats are considered significant, and the member will need to apply safeguards that reduce threats to an acceptable level to continue with the engagement. The proposed interpretation provides examples of possible safeguards.

8. PEEC believes a principles-based framework will assist with addressing most of the issues that a member may encounter in an attest engagement.

Effective date

9. PEEC recommends that the proposal be effective six months after notice is published in the Journal of Accountancy with early adoption permitted.

Request for comments

10. PEEC welcomes comments on all aspects of the proposed revision. In addition, PEEC is seeking feedback on the following specific aspects of the proposed interpretation:

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.

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

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

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

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

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

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?
Text of proposed revised interpretation “Unpaid Fees”

(Additions are presented in bold italic text. Deletions are presented in strikethrough.)

1.230.010 Unpaid Fees

.01 The existence of unpaid fees to a covered member for professional services previously rendered to an attest client may create self-interest, or undue influence, or advocacy threats to the covered member’s compliance with the “Independence Rule” [1.200.001]. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.

.02 Factors to consider when evaluating whether threats are at an acceptable level include the following:

   a. The significance of the unpaid fees to the covered member
   b. The length of time the fees have been due from the attest client
   c. The covered member’s assessment of factors affecting the ability and willingness of the attest client to pay the fees

.03 Threats to the covered member’s compliance with the “Independence Rule” [1.200.001] would not be at an acceptable level when unpaid fees are both clearly insignificant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report. Alternatively, threats would not be at an acceptable level when unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report. Other situations require judgment to assess the threats to the covered member’s compliance with the “Independence Rule.” Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.

.04 If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:

   a. 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.
b. Obtain partial payment of the unpaid fees balance.
c. Agree to a payment schedule before the current-year attest report is issued.
d. Select the current attest engagement for pre-issuance or post-issuance review.
e. Suspend further work on current attest engagements and not accept new engagements with this attest client until the unpaid fees are clearly insignificant to the covered member.
f. Communicate with those charged with governance regarding the unpaid fees and the other safeguards applied.

.03.5 This interpretation does not apply to fees outstanding unpaid fees from an attest client in bankruptcy. [Prior reference: paragraphs .103–.104 of ET section 191]

.04.6 Refer to the “Fees and Other Types of Remuneration” topic [1.500] for additional guidance.
Acknowledgments

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