

## N8 - Fees

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### GUIDANCE NOTES

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## 8.1 Introduction

This Guidance Note is issued to assist members in public practice when setting fees for professional services provided by them.

This Guidance Note should be read in conjunction with APES 110 – *Code of Ethics for Professional Accountants*, particularly Sections 290 and 291 which focus on independence in relation to audit and assurance engagements, Section 240 – “Fees and Other Types of Remuneration” and Section 260 – “Gifts and Hospitality”.

## 8.2 Basic Principles

### Factors to consider

In setting fees, you should consider:

- client instructions;
- statutory duties;
- independence;
- levels of expertise and responsibility required and the degree of complexity entailed;
- amount of time taken and effectively applied by the member and staff; and
- any agreed fee basis.

### Basis of fees

Your fees may be determined by:

- the time required to complete the work / activity;
- the value of the service to the client; or
- commercial / industry practice.

Fees should be fair and reflect the work performed.

### Fee details and engagement letters

Agreeing the fee with your client and communicating that agreement to your client prior to commencing any work on the engagement is an important part of the client relationship. Irrespective of how fees are determined, your engagement letter, or other written documentation, should contain:

- a detailed description of the work to be performed (the engagement);
- details of how the fees will be determined;
- the amount of the fees for the engagement (or an estimate if actual fees are not known);
- the billing arrangements (for example frequency and estimated timing);
- details of any third party payments, such as commission, you will receive in relation to the engagement (if applicable); and
- acknowledgement by the client of the terms.

You should ensure that this documentation is retained.

Discussion with clients and documentation of this may assist in preventing misunderstandings and resolving issues at a later stage.

### Independence and contingent fees

Where an engagement requires you to be independent of your client you should take care that the fees charged for the engagement do not impair independence. Generally, fees for assurance, valuation and insolvency engagements cannot include a component for contingencies because of the risk associated with a lack of independence and objectivity. For audit engagements contingent fees are prohibited. Before setting any fees on this basis, you should refer to APES 110, in particular

Sections 240, 290 and 291 as well as APES 215 – *Forensic Accounting Services*, APES 225 – *Valuation Services* and APES 330 – *Insolvency Services*, where appropriate.

### **Client to be advised of changes to fees**

If your fees change for any reason, including a change to the scope of the work to be performed or how you calculate fees, or if you expect to exceed any fee estimate provided, you should advise your client as soon as practicable. This should be communicated in writing: you may consider issuing a revised engagement letter.

### **Fees, commissions and third parties**

Your client should be advised where you or your staff receive any kind of benefit from a third party in connection with the engagement, including, but not limited to, a fee or commission. This includes soft dollar benefits as described in APES 230 – *Financial Planning Services*. It is imperative that your client receives full and transparent disclosure of any fees, benefits and / or commissions you or your staff may receive in relation to the engagement. Members should refer to the *Corporations Act 2001* (Cth), APES 230 - *Financial Planning Services*, APES 330 - *Insolvency Services* and APES 110 - *Code of Ethics* at Sections 240 and 260.

### **Discounting initial engagements**

Fees should not be discounted for initial engagements, with the intention of recovering fees lost through the discount by charging higher fees or additional services in future periods.

## **8.3 Determining Charge Rates**

Fees calculated on a time basis should be set at a level which provides fair remuneration to you and your staff, having regard to their qualifications and experience.

Charge rates should be set having regard to:

- salaries to attract and retain skilled and competent staff;
- salary on-costs;
- overhead costs, including provision for adequate staff training and research;
- prospective charge-out time for professional and support staff; and
- appropriate notional principal salary and profit margin.

Hourly rates are normally calculated using the above criteria for each employee (or group of employees) and principal.

Hourly rates may also be influenced by geographic location of the practice. The hourly rate may include adjustment for isolation, remoteness and relative costs of living.

## **8.4 Time Records**

Detailed time records are an important management tool for your practice. They are a way to accurately calculate the work effort involved in completing an engagement. Time records will ordinarily document:

- the engagement being worked on;
- the identity of the person completing the work;
- the time spent on the engagement; and
- a brief description of the type of work being undertaken, for example researching tax legislation, attending an inventory count, travelling time.

Sound record keeping can mitigate the risk of a fee dispute escalating as you will be in a better position to demonstrate details of the work undertaken and any other particular factors that impacted upon the fee calculations.

## 8.5 Narration on Accounts

Accounts must contain sufficient detail to reflect or clarify what work was performed or service provided. All disbursements charged back to the client should also be detailed.

## 8.6 Timing of Billing

Any accounts should be issued as soon as possible after completion of the engagement, or as otherwise agreed in the engagement letter.

Where a service is provided over an extended period, interim accounts for work completed may be billed to the client. Likewise, repetitive work should be billed regularly. As always, such arrangements need to be covered in the engagement letter. Interim billing also allows for ongoing and regular review of time taken to complete the work and timely identification of issues such as additional work.

## 8.7 Retainers

Generally, fees based on a retainer are not recommended as there may be an element of unfairness to either the client or to you and your staff. However, there may be exceptional instances where retainers are justified. If so, this needs to be clearly explained in the engagement letter and include what work will be covered by retainer fees and what will not.

## 8.8 Fee Disputes

The most common complaint received by members involves fees. CA ANZ does not arbitrate or mediate on matters relating to a member's fee disputes.

Taking simple steps before commencing the work, and communicating with your client during the engagement, may reduce the risk of a dispute arising. These include:

- have an appropriate engagement document that covers fees, charges, billing timeframes etc. (refer to APES 305 - *Terms of Engagement* for more details);
- ensure the engagement document sets out the scope of the engagement in sufficient detail;
- take time to explain to your client how your fees are calculated and your billing processes;
- issue a revised engagement letter should the scope of work or fees change;
- keep good records of time spent and disbursements to be billed to the client; and
- implement a complaints management process and ensure staff know how to handle a complaint (NOTE:- your complaints management process should reflect your obligations in APES 320 - *Quality Control for Firms* and Regulation [CR3.12](#)).

In some instances you may have the legal right to retain ownership of books and papers when a bill remains unpaid. This is called a lien and there are specific requirements and limitations to using a lien to enforce payment of a bill e.g. company books and papers covered by either statute or the articles of association may not be retained. You should refer to [N1 - Books and Records](#) for further information and guidance on liens. It is strongly recommended that you seek legal advice before exercising your rights to use a lien.