SETTING AND COLLECTING FEES

Author: Professional Advisory Services | April 2021

As a CPA practitioner, an important part of your role is the billing process, which includes setting appropriate fees, issuing billings and collecting payments for services provided. Since you must supply clients with fee details upon request, retaining proper support for amounts billed is essential.

Setting fees

When setting service fees, obtain adequate information about both the engagement and the client before providing a quotation. Below are some important requirements to consider.

Requirement	Considerations
Obtain adequate information about the engagement and the entity.	Before providing a quotation, familiarize yourself with the entity's:[1] • engagement requirements, • operating environment, • system of internal controls, • volume of transactions, • financial reporting framework, and • accounting policies and procedures.

Relevant rules in the CPA Code of Professional Conduct (CPA Code):

Rule 201, *Maintenance of the good reputation of the profession*

Rule 202.2, *Objectivity*

Rule 204.4(36), *Independence-Fees*

Rule 205, *False or misleading documents or oral presentations*

Rule 212, *Handling property of others*

Rule 214, *Fee quotations and billings*

Rule 302, *Communication with predecessor*

Rule 303, *Provision of client information*

1 Rule 214, guidance paragraph 1

Requirement	Considerations
Ensure fees are fair and reasonable.	The fees you charge may depend on: • your training and experience, • the degree of risk/responsibility the work entails, • the value of the work to the client, • any required specializations, and • whether fees are fixed by the courts/public authority.[2]
Do not make false representations related to fees.	False representations include statements that professional services will be performed for a specific fee (either stated, estimated or a range) if it is likely at the time of representation that the fee will be substantially higher and the prospective client is unaware.[3]
Exercise caution when setting fees too low.	Charging fees lower than the predecessor or quoted by others can create a perception of impaired independence and lesser quality work. Regardless of the amount of fees, you should be satisfied that: • your independence (where required), will not be impaired, • the quality of your work will not be impaired, and • you've applied due care and complied will all professional standards.[4] Under the independence rules, you cannot provide assurance services for no cost or for a fee that is significantly lower than that charged by the predecessor or contained in other proposals, unless you can demonstrate that: • qualified staff have been assigned, • appropriate time has been devoted, and • all assurance standards, guidelines and quality control, and procedures have been followed.[5]
Be prepared to provide additional details if requested by the client.	Additional details may include a breakdown of the hours spent by task performed or by engagement team member, with charge-out rates.[6]

2 Rule 214, guidance paragraph 4
3 Rule 205 and Rule 214, guidance paragraph 2
4 Rule 214, guidance paragraph 3
5 Rule 204.4(36)
6 Rule 214, guidance paragraph 5

Requirement	Considerations
You cannot resign from an engagement because of unpaid fees.	Unpaid fees is not considered “good and sufficient reason” to resign from an engagement,[7] unless there is a threat to independence (see the requirement below). Note that: • you have a contractual duty to provide services as defined by the terms of the engagement,regardless of whether you collect your fees, • your professional and business judgment should not be compromised by bias or undue influence caused by unpaid fees.[8]
Assess self-interest threats caused by overdue fees.	Generally, overdue assurance fees are paid before the following year’s report is issued. A self-interest threat may exist if fees from an assurance client remain unpaid for a long period of time, similar to a client loan.[9] Safeguards to reduce or eliminate this threat to independence include: • discussing outstanding fees with the audit committee, • soliciting advice from another firm member who is not part of the engagement team, and • engaging a professional accountant who is not a member of the firm to provide advice or review the work performed.

Best practices for setting and billing fees

The following best practices will help you and your clients manage cash flows and avoid fee disputes by minimizing unpleasant surprises when a large invoice is received at the end of an engagement.

- **Define the scope of work and prepare a budget before accepting the engagement.** Clearly outline the scope of services to be provided and prepare a detailed breakdown of estimated engagement time and each practitioner’s charge-out rate before presenting the quotation to the client.
- **Clearly state the scope of work and fee arrangements in an engagement letter.** Describe the scope of work and basis for computing fees (and fee estimate, if determinable), including any billing or payment arrangements and the procedure for unpaid fees. It is also important to address how overruns/extra work will be handled.
- **Consider requesting a retainer.** To avoid potential fee collection issues, your firm may choose to request a retainer before work commences, in which case you should refer to the use of retainers in the CPA Code.[10] Prepare a written retainer agreement that includes terms on the disbursement of the retainer.[11]
- **Have timely conversations with your clients about fees.** Discuss the specific services you will provide, how the fee is determined, when invoice(s) will be issued and when you expect payment. You may consider interim billings to help manage cash flow and timely invoicing.

7 Rule 201, guidance paragraph 10
8 Rule 202.2
9 Rule 204.4(36) and guidance paragraph 6
10 Rule 212.1(b)
11 Rule 212, guidance paragraph 3

- **Invoice your clients on a timely basis.** Issue invoices on time and per your engagement letter. Fees directly attributed to services provided are less likely to be disputed.
- **Consider improving your invoice format.** Provide sufficient descriptions and clearly itemize the work performed.

Collecting fees

You may be faced with clients who refuse to pay their fees, even after the work is complete. Below are two common queries related to collecting outstanding fees.

Query	Considerations
If a former client refuses to pay their outstanding fees, can you ignore requests to communicate with the successor accountant?	• You must cooperate with the successor and respond to their requests,[12] recognizing that the client's interests are paramount regardless of any outstanding fees. • If you obtain the client's permission to disclose your reasons for withdrawing or resigning,[13] notify the successor so that they can assess how it influences their decision to work with your former client.
If a client refuses to pay their fees, can you withhold their final work product/ client information[14] until they pay?	• At the client's request, you are required to supply all reasonable and necessary client information to the client, successor accountant or third party within a reasonable time period.[15] • If you withhold client information in an attempt to influence payment of fees, you are not acting in the best interest of the client.

As no two situations are identical, CPAs are responsible for ensuring that their own situation complies with the CPA Code of Professional Conduct, By-law and Regulations. Please note that this article is considered to be non-authoritative guidance only.

12 Rule 302.2
13 Rule 302.3(b)
14 Consider reading the guidance article: Confidentiality of client information, on the Professional Advisory Services guidance page.
15 Rule 303

Have a question? Our Professional Advisory Services team is here to help, making first point of contact within 24 hours.

Call: **416 204.3106** or **1 800 387.0735 x4456**

Email: **professionaladvisors@cpaontario.ca**