

SECTION 11

Fees and Commissions

11.1 Chartered accountants in practice who undertake professional services for a client, assume the responsibility to perform such services with integrity and objectivity and in accordance with the appropriate technical standards. That responsibility is discharged by applying the professional skill and knowledge which chartered accountants in practice have acquired through training and experience. For the services rendered, the chartered accountant in practice is entitled to remuneration.

Professional Fees

11.2 Professional fees should be a fair reflection of the value of the professional services performed for the client, taking into account:-

- (a) The skill and knowledge required for the type of professional services involved.
- (b) The level of training and experience of the persons necessarily engaged in performing the professional services
- (c) The time necessarily occupied by each person engaged in performing the professional services.
- (d) The degree of responsibility that performing those services entails.

11.3 Professional fees should normally be computed on the basis of appropriate rates per hour or per day for the time of each person engaged in performing professional services. These rates should be based on the fundamental premise that the organization and conduct of the chartered accountant in practice and the services provided to clients are well planned, controlled and managed. They should take into account the factors set out in paragraph 11.2 and in ATRs issued by the Institute from time to time.

11.4 A chartered accountant in practice should not make a representation that specific professional services in current or future periods will be performed for either a stated fee, estimated fee, or fee range if it is likely at the time of the representation that such fees will be substantially increased and the prospective client is not advised of that likelihood.

11.5 When performing professional services for a client it may be necessary or expedient to charge a pre-arranged fee, in which event the chartered accountant in practice should estimate a fee taking into account the matters referred to in paragraph 11.2 through 11.4

11.6 Replying to Enquiries for Audit Jobs

As regards quotation of fees, the Council continues to be of the opinion that chartered accountants in practice should quote fees commensurate with the nature and service to be rendered. However, in such cases, chartered accountants in practice should be careful not to quote fee lower than that charged by the chartered accountants in practice previously carrying out the audit unless scope and quantum of work materially differs from the scope and quantum of work carried out by the previous auditor, as it could then be regarded as undercutting.

Commentary

The fact that a chartered accountant in practice secures work by quoting a fee lower than another is not improper. However chartered accountants in public practice who obtain work at fees significantly lower than those charged by an existing accountant, or quoted by others, should be aware that there is a risk of a perception that the quality of work could be impaired.

Accordingly, when deciding on a fee to be quoted to a client for the performance of professional services, a chartered accountant should be satisfied that, as a result of the fee quoted: -

- a) The quality of work will not be impaired and that due care will be applied to comply with all professional standards and quality control procedures in the performance of those services, and
- b) The client will not be misled as to the precise scope of services that a quoted fee is intended to cover and the basis on which future fees will be charged.

11.7 As stated in paragraph 9.8: -

Professional services should not be offered or rendered to a client under an arrangement whereby no fee will be charged unless a specified finding or result is obtained or when the fee is otherwise contingent upon the findings or results of such services.

Commentary

Fees should not be regarded as being contingent if fixed by a court or other public authority. Fees charged on a percentage or similar basis, except when authorized by statute or approved by the Institute as generally accepted practice for certain professional services, should be regarded as contingent fees.

11.8 The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses, in particular travelling expenses, attributable directly to the professional services performed for a particular client would normally be charged to that client in addition to the professional fees.

11.9 It is in the best interests of both the client and the chartered accountant in practice that the basis on which fees are computed and any billing arrangements are clearly defined, preferably in writing before the commencement of the engagement to help in avoiding misunderstandings with respect to fees. (For further guidance refer to International Standard on Auditing 210 "Terms of Audit Engagements".)

11.10 Chartered accountants in practice are encouraged to comply with ATR-14, *Minimum Hourly Charge Out Rates And Minimum Fee For Audit Engagements*.

Commissions

11.11 The payment or receipt of a commission by a chartered accountant in practice could impair objectivity and independence. Subject to paragraph 11.13, a chartered accountant in practice should not therefore, pay a commission to obtain a client nor should a commission be accepted for referral of a client to a third party. A chartered

accountant in practice should not accept a commission for the referral of the products or services of others.

- 11.12 Payment and receipt of referral fees between chartered accountants in practice when no services are performed by the referring accountant are regarded as commissions for the purpose of paragraph 11.11.
- 11.13 A chartered accountant in practice may enter into an arrangement for the purchase of the whole or part of an accounting practice requiring payments to individuals formerly engaged in the practice or payments to their heirs or estates. Such payments are not regarded as commissions for the purpose of paragraph 11.11.
- 11.14 In countries where payment and receipt of commissions are permitted, either by statute or by a member body of that country, such engagements should be limited to those for which independence is not required and the chartered accountant in practice should nonetheless disclose the facts to the client.

Chartered accountants in practice in Pakistan should keep in mind the provisions of the Ordinance and Bye-Laws.