Promoting Professionalism in Accountancy

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

GUIDELINES ON PROFESSIONAL FEES

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ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by The Accountants Act, Cap 266. The functions of the Institute, as prescribed by the Act, are to regulate and maintain the standard of accountancy in Uganda and to prescribe or regulate the conduct of accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

Vision

To be a world class professional accountancy institute.

Mission

To develop and promote the accountancy profession in Uganda and beyond.

Core Values

1) Professional Excellence.
2) Integrity.
3) Commitment.
4) Good Governance.
5) Social Responsiveness.

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

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INTRODUCTION

There have been significant changes in the professional standards over the last few years. This has resulted in more stringent demands on the audit practitioners. Audit practitioners have therefore had to continuously up-grade their skills in order to continue maintain adherence to these professional requirements.

ICPAU believes that a reasonable level of remuneration will encourage the practitioners to maintain and up-grade the quality of services that they render.

ICPAU has therefore developed Guidelines for Professional Fees which set out a basis for establishing a reasonable level of remuneration, commensurate with the provision of professional assurance services of an acceptable and recognised standard.

1.0 PROFESSIONAL FEES

The fundamental principles underlying the charging of professional fees and general guidance in connection therewith are given in Section 4.9 of the ICPAU Code of Ethics. These Guidelines must be read in conjunction with the Code.

Members are advised that when charging fees they should ensure that their independence, objectivity and judgment are not impaired by the hope of financial gain. They should ensure that such fees are commensurate with the responsibilities they assumed.

Members should be particularly careful to ensure that there is no danger that standards of performance will be adversely affected because the fee charged is insufficient to allow the necessary amount of time and skill to be spent for this purpose.

2.0 CHARGING CLIENTS

A substantial proportion of the costs of running a practice are salary related. Members in practice are justified in increasing their charge-out rates, to be able to ensure that the remuneration of their qualified staff, as well as their own, is competitive, particularly in the light of the member's responsibility and commitment to continuing professional education.

On the other hand it is incumbent on members to give their clients value for money for the fees charged. Accordingly, members should make certain that the organisation of and the methods used in their offices are up–to-date and efficient.

Members are advised that their fee-notes should indicate as much detail as is practicable, and, in particular, that charges for other categories of work, for example, secretarial, tax, accounting and consulting, are specified separately, and not included in, say, the audit fee. Disbursements should also be disclosed separately.

There are two bases for computation of professional fees, i.e. Value-based and Time-based.

3.0 VALUE-BASED PRINCIPLE

The computation of an appropriate fee for services involves value judgment. It should take into account the value of advice rendered by the member and the benefit, tangible and intangible, derived by the client.

Value-based billing takes cognizance of the knowledge and skills that a member brought to bear on the assignment and the professional judgment that he was called upon to make. At the same time, the client who derived a certain value, be it functional value or emotional value, must be reflected by a fair and equitable fee payable.

In the course of applying Value-based billing, a member must uncover the value drivers of his service. Value drivers are those elements that assist the member in satisfactorily and professionally discharging his professional obligation. Generally, express and tacit knowledge, information technology hardware, quality of internal processes and others can and are the drivers of value.

In the course of his professional work, the member should and must impress upon his/her client the 'value' that is being 'delivered' and the 'value-drivers' that have been brought to bear in satisfying the client's objective.

Fees charged for assurance engagements should be a fair reflection of the value to the client and should take into account, inter alia:

(a) the skill and knowledge required for the type of work involved;
(b) the level of training and experience of the persons necessarily engaged on the work;
(c) the time necessarily occupied by each person engaged on the work; and
(d) the degree of responsibility and urgency that the work entails.

It is recommended that professional fees should be charged based on value delivered **(Appendix 3)** rather than time expended.

3.1 Gross Turnover or Total Assets Basis

Audit fees shall generally be based upon the degree of responsibility, risk and skill involved and the time necessarily occupied on the work. There is a proportionate correlation between audit fees charged, based on time charge, and the value of total assets or gross turnover or operating expenditure. Therefore, for consistency and harmonization of the fee levels, it is appropriate to determine audit fees using the Total Assets or Gross Turnover as shown in the financial statements and multiplying it with the coefficient percentages as shown in the coefficient percentage table **(Appendix 2)**.

3.2 Total Operating Expenditure Basis

The choice of Gross Turnover or Total Assets as the basis must be relevant and reflect closely to the time charge. Only where it is not appropriate to use Total

Assets or Gross Turnover, members may adopt Total Operating Expenditure basis which must be relevant and reflect closely on time charge.

4.0 TIME-BASED PRINCIPLE

Time-based billing had been very useful in the past in assisting the members in charging the clients. However, under this method, there is a danger of arbitrary fixing of charge-out rate due to erroneous recording of time sheets, resulting in undervaluing professional fees being billed to the clients.

4.1 Time records

Where fees are based on time evaluated at a rate, time records should be kept for individual staff or grades of staff, depending on how the rates are calculated, and applied in accordance with the paragraph below (rates for staff). Time necessarily incurred on work for clients should be recorded.

4.2 Rates for staff

The rates per hour should be calculated on an annual basis using the following formula: *Salaries and related expenses multiplied by mark-up factor for overhead costs and margins divided by chargeable hours* **(Appendix 1).**

4.3 Salaries and related costs

This element of the formula should include the total costs of the employees' remuneration packages, including salaries and related costs such as the firm's contributions to NSSF and medical coverage costs, insurance, direct recruiting expenses, such as the costs and fees paid to recruitment agencies, and all direct training costs. Any Value Added Tax (VAT) included in the above expenses, which can be claimed as an input credit, should be excluded from these costs.

4.4 Mark up factor

Significant overheads to be covered by this mark up factor include rents and related costs, professional indemnity insurance, administration costs incurred in running the practice, and the cost of continuing professional education. The factor will vary according to the overhead structure of the practice and the location of each office and it is therefore not possible to establish a fixed factor. The mark up factor should normally fall within the range set out in **Appendix 1**.

4.5 Chargeable hours

The chargeable hours per annum used in the calculation should be the estimate of the hours which could reasonably be expected to be charged by the individual or an average of a grouping of individuals to which similar costs and circumstances apply. It should be based on the fundamental premise that the organisation and conduct of the practice and its clients’ work are well planned, controlled and managed. Excessive idle time should not be allowed for. However, greater allowance for idle time should be made for specialist staff engaged on work of a fluctuating nature.

The number of chargeable hours should be arrived at after excluding time spent on annual and study leave, public holidays, training courses, attending lectures and tutorials, technical research and illness and an allowance for time occupied in general duties not chargeable to any particular client.

For staff engaged in providing core professional services the number of chargeable hours used in the calculation should normally fall within the range set out in **Appendix 1**.

4.6 Partners’ rates

The rates for partners should be set in terms of **Appendix 1**. Higher rates than normal are usually charged for specialist advice on such matters as business advisory services, estate planning, taxation, arbitrations, investigations, mergers, takeover bids, reconstructions, prospectuses and applications for stock exchange listings and share valuations, accounting and litigation support where the work involves special demands on members' and associates' time and skill.

4.7 Expenses

The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses necessarily incurred in connection with the engagement, e.g. travelling and accommodation expenses, specific stationery, communication costs and any direct outsourced expenses should normally be charged to the client in addition to the professional fees calculated in accordance with this circular.

Care should be taken to ensure that such disbursements are claimed from clients in a way that does not preclude them from claiming an input credit for VAT purposes in respect thereof.

4.8 Representation on fees

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

4.9 Provisions in financial statements

Where it is not possible to determine the final fee at the time financial statements are finalized, clients should be informed, when appropriate, that the amount provided therefore should be regarded as being provisional only.

5.0 OTHER CHARGES

It is emphasized that this document is a guide issued for the assistance of members and associates in the determination of fees for secretarial and tax work and does not attempt to state minimum or maximum fees. There are many instances where the guidance given is not appropriate and therefore higher or lower fees may be justified.

The A**ppendix 5** lists the various secretarial and tax tasks commonly undertaken by members. In order to avoid the problem of continually updating the fees set out in the appendix, each of these tasks has been allocated a certain number of standard units, based upon the length of time generally required to perform the task and the degree of difficulty associated with it. In order to convert the standard units into fees, the standard units must be multiplied by 1/65 of the normal monthly remuneration of an average first year trainee accountant in the particular area in which the accountant practices. The factor thus takes into account the effects of inflation and the fact that fee structures vary from area to area. The fraction 1/65 is a constant and is merely the proportion which the current fee for 1 standard unit bears to the current salary of a first year trainee accountant. For example, the initial work involved in the formation of a company, is allocated 86 standard units. Therefore, if the monthly remuneration of a first year trainee accountant in the particular area were say Shs. 1,500,000 per month, the fee would be calculated as follows:

Shs 1,500,000 x 1/65 x 86 = Shs 1,984,615

It is important to note that the remuneration used in all these calculations is the starting remuneration of an average first year trainee accountant and not that of the person performing the work. The reason for this is that the level of expertise required to perform the task is taken into account in the standard units.

Value-added Tax (VAT) must be added to the resultant fee by members who are registered as VAT. It should be kept in mind that services supplied for and to a person who is not resident in Uganda, and who is outside the country at the time the services are rendered, are zero rated.

The guidance given assumes that there are no delays or unforeseen complications. Should such delays or unforeseen complications occur, it would normally be appropriate to charge according to time spent rather than basing the fee on the units set out in this guideline.

6.0 CONCLUSION

Fee arrangement is a matter for commercial negotiation by members. The Institute does not prescribe the mandatory basis for calculating fees, nor does it ordinarily investigate complaints relating solely to the quantum of fees charged. The level of fee is to be mutually agreed between the auditor and his client which largely depends upon the skill and knowledge required, level of training and experience of the staff involved, the time necessarily occupied and the degree of responsibility and urgency of work involved.

The Guidelines are a useful benchmark to establish the reasonable level of remuneration in the absence of other more sophisticated billing methodology.

Appendix 1: Time Based Charges

As a guide the ranges for the mark up factor for overheads, the number of chargeable hours of staff and the rates for partners would normally be as follows:

Mark up factor for overheads and margin

2.5 to 3

Chargeable hours of staff

1200 to 1540 hours per annum.

Rates for partners

Members, 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 members or associates in public practice have acquired through training and experience.

Members are entitled to be fairly remunerated and are urged to charge their time at rates that reflect the above responsibilities as well as their status as professionals.

Rates for specialist work

These rates would depend upon the demands on members' time and skill but would certainly be higher than the normal rates for partners.

Appendix 2: Coefficient Percentage Table

For the purpose of these Guidelines:

(i) "Total Assets" is defined as the total of all assets as shown in the Balance Sheet.

(ii) "Gross Turnover" shall mean and include:
- (a) Total amount of sales including all other income and earnings for the year in the case of all manufacturing and trading organisations:
- (b) Total gross premium income including all other income and earnings for the year in the case of all insurance organisations;
- (c) Total amount of interest, discount, commission, exchange brokerage and all other income and earnings for the year in the case of banks and other financial institutions;
- (d) Total amount of commission including all other income and earnings for the year in the case of travel agencies, indentors, brokers and other organisations whose principal source of income is commission earnings; and
- (e) Total receipts/bills accounted for and all other income and earnings for the year in the case of construction companies and other entities not covered under (a) to (d) above.

(iii) "Total Operating Expenditure" includes all expenses charged against gross profit to arrive at net profit before tax but excludes direct cost of sales.

Coefficient Percentage Table

(i) Gross Turnover or Total Assets Basis

	UGX	**Rate (%)**
The first	100,000,000	1.000
The next	150,000,000	0.438
The next	250,000,000	0.313
The next	500,000,000	0.188
The next	1,500,000,000	0.125
The next	2,500,000,000	0.100
The next	5,000,000,000	0.094
Above	10,000,000,000	Negotiable (but should not be less than UGX 10,000,000 per assignment)

(ii) Total Operating Expenditure Basis

	UGX	Rate (%)
The first	50,000,000	2.500
The next	150,000,000	1.250
The next	800,000,000	0.625
The next	1,000,000,000	0.250
The next	2,000,000,000	0.125

Appendix 3: Value Based Charges: Example

Example 1: Total Assets or Gross Turnover

Assume that the Gross Turnover is UGX 1,740,000,000 and its Total Assets amount to UGX 2,560,000,000. The audit fees based on Total Assets and Gross Turnover will be computed as follows:

On Total Assets:

				UGX
First	100,000,000	at 1.000%	=	1,000,000
Next	150,000,000	at 0.438%	=	657,000
Next	250,000,000	at 0.313%	=	783,000
Next	500,000,000	at 0.188%	=	940,000
Next	1,500,000,000	at 0.125%	=	1,875,000
Next	60,000,000	at 0.100%	=	60,000
Total	**2,560,000,000**			**5,315,000**

On Gross Turnover:

				UGX
First	100,000,000	at 1.000%	=	1,000,000
Next	150,000,000	at 0.438%	=	657,000
Next	250,000 at 0.313%		=	783,000
Next	500,000 at 0.188%		=	940,000
Next	740,000 at 0.125%		=	925,000
Total	**1,740,000,000**			**4,305,000**

However, the above determination must always be matched against time charge. Therefore, different jobs with different business activities and business structure may have the same Total Assets and Gross Turnover but the time incurred in performing the audit may vary. For comparison purposes, if we use the above figures that has the same gross turnover and total assets but with different time charge for different companies' audit, as follows:

Company 1 - UGX 4,000,000
Company 2 – UGX 4,750,000
Company 3 – UGX 5,000,000
Company 4 – UGX 6,000,000

The audit fees shall be determined as follows:

For Company 1
Time Charge is relevant and closer to fees computed based on Gross Turnover. Thus, the recommended fee of UGX 4,305,000 will apply.

For Company 2
Time Charge is between fees computed based on Total Assets and Gross Turnover. Thus the recommended fee will be based on time charge at UGX 4,750,000.

For Company 3
Time Charge is relevant and closer to fees computed based on Total Assets. Therefore, the recommended fee will be UGX 5,315,000.

For Company 4
Time Charge is higher than the fee calculated based on Total Assets. Therefore, the recommended fee will be on time charge at UGX 6,000,000.

Example 2: Total Operating Expenditure

In a situation where an organisation has a Turnover of UGX 100 billion and Total Assets of UGX 5 billion with total operating expenditure of UGX 1.5 billion, it will be inappropriate to determine audit fees using the Total Assets or Gross Turnover basis because of the extremes.

Therefore, it will be appropriate to use Total Operating Expenditure.

Based on Total Operating Expenditure of UGX 1.5 billion, the fee computed per the coefficient percentage table will be UGX 9,375,000 as follows:

UGX				
The first	50,000,000	at 2.500%	=	1,250,000
The next	150,000,000	at 1.250%	=	1,875,000
The next	800,000,000	at 0.625%	=	5,000,000
The next	500,000,000	at 0.250%	=	1,250,000
Total	**1,500,000,000**			**9,375,000**

Again, this figure as computed will be compared against the time charges incurred to determine whichever is higher.

The recommended levels of audit fees are applicable only for draft accounts submitted for audit with proper schedules. Members may wish to charge higher audit fees having considered the reliance placed on internal control, complexity of business activity, volume of transactions, degree of responsibility and risk, skill of staff and timing of the audit etc.

Draft accounts submitted without proper schedules would require a member firm to utilise more skill and knowledge as well as time spent on the assignment, and as such the member firm should advise the client that higher audit fees shall be charged for such audit assignments, issue of independence notwithstanding.

Although the examples given are meant to be an illustration of how audit fees can be determined, members are also reminded that the use of the benchmark computation is on the basis that the clients has submitted the draft accounts with *all proper schedules* to the auditors.

Naturally, draft accounts submitted without proper schedule would require a member firm to utilise more skill and knowledge as well as time spent on the assignment (independence issue not withstanding) and as such the member firm should advise the client that a higher audit fees shall be charged for such assignments.

The use of the fee computation coefficient to arrive at a benchmark fee must be compared with the time charge and whichever figure that is higher (after the comparison) should be the basis for billing to the client.

Appendix 4: Other Professional Charges

1. Secretarial Work

1.1 Initial work in connection with the formation of a company, including initial secretarial work, name reservation and appointment of auditors, excluding disbursements to attorneys for preparation and registration of memorandum and articles of association.

Standard units: 86

1.2 Initial secretarial work in connection with the formation of a company, where the company has already been formed (1-4 directors or members).

Standard units 6

Inaugural minutes Share certificates Share transfers	2 units each

1.3 Change of name of a company (notice to shareholders, name reservation minutes, advise Receiver of Revenue and update records and statutory register), excluding disbursements to attorneys for preparation and registration of changes to memorandum and articles of association.

Standard units: 29

1.4 Change of financial year-end (resolution, letter to URA and update register).

Standard units: 11

1.5 Change of director, secretary or officer (resolution, letter to URA and updating records).

Standard units: 8

1.6 Change of auditors (resolution, letter to URA and updating records).

Standard units: 8

1.7 Change of registered office (resolution, letter to URA and updating records).

Standard units: 12

1.8 Lodgement of documents in respect to changes in memorandum and articles excluding disbursements to attorneys for preparation and registration of changes to memorandum and articles.

Standard units: Time spent

1.9 Opening new banking accounts (Copies of memorandum and articles, certificate of incorporation, certificate to commence business, resolution, bank forms).

Standard units: 16

1.10 Change in banking account signatories.

Standard units: 6

1.11 Transfer of shares.

a) Checking Articles and if applicable, shareholders; agreement, resolution.
b) Transfer deeds.
c) Share certificates.
d) Writing up register (per transfer).

Standard units: 6

1.12 Allotment of shares.

Standard units: 30

1.13 Increase in authorised share capital (notice to shareholders, minutes of meeting, checking articles and register, updating register).

Standard units: 30

1.14 Increase in authorised share capital where creation of new class of shares is necessary.

Standard units: Time spent.

1.15 Buy back shares (payment to share holders).

Standard units: Time spent

1.16 Time Extensions of share transfer.

Standard units: Time spent

1.17 Restoration of a company to the register.

Standard units: 4

1.18 Acting as company secretaries of private companies per annum.

Standard units: 4

1.19 Notice of Extraordinary Meeting for Special Resolutions.

Standard units: 5

1.20 Deregistration of a company with the Registrar of Companies.

Standard units: Time spent

1.21 Annual General Meetings (notice, minutes, directors' resolution, letter of representation).

Standard units: 12

1.22 Conversion of the status of a private company to a public company and vice versa.

Standard units: Time spent

1.23 Appointment of receiver.

Standard units: 10

1.24 Registration of trade marks.

Standard units: 10

1.25 Acquisition by a company of its own shares (including change of articles, notice to shareholders, minutes of meetings).

Standard units: Time spent

1.26 Preparing for Initial Public Offer.

Standard units: Time spent

1.27 Resignation of a Secretary of a public company (minutes of a directors' meeting and updating register).

Standard units: 6

2. Income Tax

2.1 Completion of returns and forms:

(i) Provisional tax returns } ***5 units each***
(ii) Final tax return

Standard units: 10

2.2 Other:

(i) Application for extension of time to file a return. ***Standard units: 4***
(ii) Checking of tax assessment ***Standard units: 4***
(iii) Registration of an individual taxpayer. ***Standard units: 8***
(iv) Attending to minor tax queries ***Standard units: Time spent***
(v) Attending to objections to tax assessment and major tax queries.

Standard units: Time spent

3. Value Added Tax

3.1 The application for registration ***Standard units: 13***
3.2 Application for (cancellation) deregistration. ***Standard units: 6***

3.3 Completion of VAT returns - ***Standard units: Time spent, minimum of 6***

4. Other

4.1 Tax clearance certificates

Standard units: *Time spent.*

4.2 Application for payment of assessed tax or provisional tax in instalments

Standard units: *Time spent*