



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

GUIDELINES ON PROFESSIONAL FEES

AUGUST 2022

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy body in Uganda. The functions of the Institute, as prescribed by the Accountants Act, 2013 are to regulate and maintain the standard of accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practicing accountants in Uganda. ICPAU has over 3,000 registered members and over 8,000 active students going through the Institute's examinations scheme at various levels of completion.

Vision

To be a world class professional accountancy institute

Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond, in public interest

Core Values

- Professional excellence
- Accountability
- Integrity
- Innovation

TARGET AUDIENCE

ICPAU provides guidance and services to help its members keep up to date with regulatory issues and developments. ICPAU represents professional accountants in Uganda and contributes to public affairs and other matters that impact on the accountancy profession.

The primary audience for these guidelines is accountants in public practice.

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1.0 INTRODUCTION

The fundamental principles underlying the charging of professional fees and the 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.

Practising accountants 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.

Practising accountants 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.

Practising accountants have a duty to continuously upgrade their skills in order to maintain adherence to the professional standards and ethical requirements. ICPAU believes that a reasonable level of remuneration will encourage the practising accountants to maintain and/or upgrade the quality of services that they render.

2.0 CHARGING CLIENTS

A substantial proportion of the costs of running a practice are salary related. Practising accountants 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 their responsibility and commitment to continuing professional education.

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

Practising accountants 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.

3.0 ETHICAL CONSIDERATIONS

The ICPAU Code of Ethics states that fees should normally be computed by reference to the skill and knowledge required for the work involved, the seniority of the persons necessarily engaged on the work, the time necessarily occupied by each person engaged on the work and the nature of responsibility, which the work entails.

Lack of understanding of the basis of fees regularly contributes to clients or former clients making complaints. In order to avoid such complaints, clients need to be assisted in understanding the basis of fees calculation. Reasonable details about this often have to be provided in the engagement letter before commencing the work.

Given that fee arrangements and methods of payment vary widely in practice, the ICPAU Code of Ethics does not prescribe the method a firm should use to determine the fees, or the type

of remuneration (for example, the fees quoted, charged or paid) that should be taken into consideration for purposes of identifying, evaluating and addressing threats to independence.

A practising accountant should consider any type of payment received from their client for purposes of evaluating and addressing the level of the threats created, and exercise appropriate professional judgment.

4.0 CONSIDERATIONS FOR SETTING AN APPROPRIATE FEE

The charge out rate method involves calculating the costs of the practice, adding a profit margin and then applying this to an hourly rate. The client is then quoted based on the estimated time to provide the services multiplied by the deemed charge out rate.

It may be useful to consider charging differential charge out rates for different types of services and perceived value. The firm may determine that there are clients that may be a better fit for another firm, unless they are willing to pay a higher fee. There is no “one size fits all” formula for charge out rates because engagements and clients vary.

In addition, practising accountants are encouraged to have the following considerations while setting fees for their services:

(a) Base the fees on service

Practising accountants should base their fees on the value for the client. There is often someone willing to do things cheaper, so it is important to defend why the firm can offer the best service the client may need, and therefore justify the fee level. The service must cover the needs of the client, even if the fees are very competitive.

(b) Prices should be reasonable

Professional fees should be consistent with attributes of the service to be offered and confidence in the firm. Clients tend to accept fees basing on their perception of the value to be provided by the practising accountant. Therefore, practitioners should aim to provide quality services and ensure that that the client understands the service to be provided before quoting their fees.

(c) Time spent on an assignment as a basis for fees

Practising accountants often fix fees based on the amount of time spent on the engagement. The number of hours the practising accountants have spent providing the engagement serves as the baseline in the determination of fees for that engagement.

(d) Fees should not be set too low

Fees charged for the service should be enough to cover the firm’s ongoing costs. Setting prices too low can lead to insufficient resources to pay staff, and therefore lead to a risk of losing key individuals, which may impact the quality of the firm’s services. If this happens, it could result in a very dangerous cycle: less perceived value, so lower fees received, leading to poor rewards for staff. This cycle could have long-term consequences for the firm’s viability.

(e) Firm strategy

Setting of fees should be part of the firm's strategy. The firm's perceived attributes in the market will determine the fees clients are willing to pay. Above all, practising accountants should aim at appropriately pricing their value proposition. Practising accountants should set fees at a level that reflects value for the client in their unique needs and circumstances. Once the proposed fees have been accepted by the clients, then the practising accountant should ensure that all terms and conditions relating to the fees are in the engagement letter.

5.0 SETTING PROFESSIONAL FEES

The Guidelines propose two bases for computation of professional fees i.e. value-based and time-based approaches.

5.1 Value-Based Fees

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

Value based fees are determined before the engagement commences and establish a fee on the perceived value to the client, rather than the actual cost of the service, the market price, or competitor price.

Value-based billing takes cognizance of the knowledge and skills that a practising accountant 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.

5.1.1 Value drivers

In the course of applying value-based billing, a practising accountant must uncover the value drivers of his service. Value drivers are those elements that assist the practising accountant 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 practising accountant should and must impress upon his or 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.

5.1.2 Benefits of a Value Based Approach

One of the major benefits of value-based billing is that both parties know in advance what the price will be; there is less anxiety about the final bill and there are no surprises. It can also help your clients understand exactly what they are getting with regard to not only the price, but also the scope of work.

On the staff side, it also stresses the importance of providing value to the client and what the expected outcome will be, as opposed to focusing only on the number of hours they will need to spend on the job. This could lead to growth for individuals on the job and more thinking outside the box with regard to client solutions.

Some firms challenge their staff on how best they will provide the solution and which technologies they can use to be as efficient and effective as possible, rather than insist on a certain number of hours to get the job done in accordance with a budget¹.

5.2 Time-Based Fees

This involves the use of charge-out rates in the determination of fees for professional services.

In using this method, practising accountants are encouraged to quote professional fees based on the estimated time and team composition required or spent to provide the services multiplied by the deemed charge out rate.

Time-based billing is based on the fundamental premise that the organisation and conduct of the practice and its clients' work are well planned, controlled and managed.

Time-based fees may be subject to minimum rates prescribed in Regulations issued under the Accountants Act 2013.

5.3 Records

Where fees are based on time evaluated at a rate, time records should be kept for individual staff or grades of staff. Time necessarily incurred on work for clients should be recorded.

Practising accountants are encouraged to keep time records for each engagement team member involved in the assignment, which should indicate the actual time spent at each assignment. Should it be necessary to spend more time than expected because of exceptional circumstances, additional work to be performed should be negotiated with the client and agreed prior to any work being carried out.

¹ Illuzzi K. and Baker Rm. (2022) *Value Pricing - An Update*, International Federation of Accountants

5.4 Non-Assurance Services

Methods of determining professional fees for non-assurance services may vary according to the nature of engagement. Fees may be ascertained by a gross sum, a fixed sum, commission or percentage of the value of the assignment, or partly in one mode or another; and may take into account any of the following:

- (a) The skill, labour and responsibility involved therein on the part of the practising accountant;
or
- (b) The number and importance of the documents prepared or perused, without regard to length.

5.5 Specialised Skills

Where a practising accountant engages the services of a person with a specialized skill in the provision of accountancy services, the practising accountant should bill the client for the cost related to the provision of such specialized skill.

5.6 Expenses

Where a practising accountant incurs any additional costs in the course of providing professional services such as travelling costs and any other out-of-pocket expenses, then the practising accountant should bill the client for costs involved.

6.0 CONCLUSION

Fee arrangement is a matter for commercial negotiation by practising accountants with their clients. ICPAU does not ordinarily investigate complaints relating solely to the quantum of fees charged.

The level of fees 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.

Practising accountants, on taking instructions for any professional assignment, shall draw the attention of the client to the criteria used in establishing the fees set. This is aimed at minimizing complaints from clients or former clients about fees charged.

If any practising accountant accepts appointment at unreasonably low rates, the relevant working paper files may be subject to review by ICPAU to assess the quality of the work done. Unsatisfactory quality of work may cause the firm or partner to be subjected to disciplinary action.

The Guidelines should be used as a benchmark to establish the reasonable level of remuneration. Other sophisticated billing methodology may be more appropriate for the firm or the nature of client or engagement handled.

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