



## **REVIEW OF LICENCE FEES FOR FIRMS, INDIVIDUALS AND OTHER MANDATORY LICENCING REQUIREMENTS.**

### **Introduction**

The Institute of Certified Public Accountants of Kenya (ICPAK) was established in 1978. The Institute is a member of the Pan-African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession. The Institute draws its mandate from the Accountants Act (no 15 of 2008). The Act prescribes the various functions of the Institute among them regulation of accountancy professional. Members with practicing certificates issued as per section 18 to 21 of the accountant act are required to apply for an annual licence as per section 22 of the accountant act. The act under section 22 further requires where the holder of a practising certificate intends to practise as a firm, whether as a sole practitioner or in a partnership, to apply to the Registration Committee for an annual licence in the prescribed form, furnishing the Registration Committee with such details of the firm as it may require.

Council introduced firm license fee, and mandatory trainings, and firms PII to comply with professional standards as well as other practice requirement.

### **1. BASIS OF REVIEW OF THE CURRENT FIRM LICENSING**

#### **a) Concerns Raised by Members and Petitions Received**

- When the new licences fees and requirements were affected as from 1<sup>st</sup> January ,2019, practitioners complained, citing they were not consulted and that the fees were high and unaffordable to most of them especially the small ones of sole ownerships and partnerships of Ten Million annual turnovers and below. The single practitioner owned firms complained that there is no difference between the partner and the firm since they were one and the same person in law and therefore subjecting them to firm licence amounts to double licensing of

one and same person. The firms also protected subjecting their office branches to additional licence fees besides the requirement to have a Professional Insurance indemnity and attending mandatory trainings.

- Some members gave a notice of motion on the same issues and tabled their complaints through various petitions during the 44<sup>th</sup> AGM held this year at Safari Park, in Nairobi.
- The Management invited the AGM petitioners to a meeting and the same was held on 4<sup>th</sup> September 2019 at CPA centre where again the same issues were tabled and discussed.

#### **b) The concentration ratio**

Based on the on the institutes' analysis on concertation of firms' turnover for various categories of firms our current firm licensing structure contradicts the concentration ratio. concentration ratio is a ratio that indicates the size of firms in relation to their industry. Low concentration ratio in an industry would indicate greater competition among the firms in that industry, compared to one with a ratio nearing 100%, which would be evident in an industry characterized by a true monopoly.

A rule of thumb is that an oligopoly exists when the top four firms in the market account for more than 60% of total market sales. If the concentration ratio of one company is equal to 100%, this indicates that the industry is a monopoly.

The turnover from one of the Big Four firms equals far much more than the entire turnover of all the over 600 small and medium sized firms. Hence it calls for the council to reconsider the firm licensing structure and have a rationalised basis for charging firm fee license.

1. To promote standards of professional competence and practice amongst members of the Institute
2. To promote research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith;
3. To promote the international recognition of the Institute.
4. To advise the Examination Board on matters relating to examinations standards and policies;
5. To advise the Minister on matters relating to financial accountability in all sectors of the economy;

6. To carry out any other functions prescribed for it under any of the other provisions of this Act or any other written law and
7. To do anything incidental or conducive to the performance of any of the preceding functions.

## **2. WHY FIRM AND BRANCH ANNUAL LICENCE WERE INTRODUCED**

- i. Previously the Institute was only licensing partners thus the accountancy firms were not being licensed this subjected them to payment of business permit required by various county governments. This was very expensive to the practice firms and therefore the council introduced a firm licence to all accountancy practice managed by members with practicing certificate to ensure that they are protected from being subjected to county single business permits imposed by County governments.
- ii. Over years the council noted that there was need to regulate/license accountancy firms so that the public can be able to differentiate a professionally licensed firm and others.
- iii. There is need to raise revenue by the Institute to subsidise provision of technical and support services to the practitioners at an affordable fee e.g. Audit software development, technical guidelines, lobby with other government agencies for our practitioners to access public sector audits and other related consultancies.
- iv. Introduction of firm license and other requirements introduced in the guideline would also help weed out non committed practitioners who were practicing without a business name or leasing their practicing certificate to non-accountancy firms.
- v. The practice of licensing firms benchmarks with other professions like Engineers, Architects and Quantity surveyors (IBK and BORAQS).

The institute through council guideline No. 01/LLP/2018/ dated 29<sup>th</sup> October 2018) required beginning 1<sup>st</sup> day of January 2019, all practising members to have the names and styles of their practices listed with the institute by paying the prescribed fee for their firm license ranging from KSh 10,000 – KSh 200,000 as indicated below;

No of Partners	Fees based on Turnover p.a. - Normal Firm		Fees based on Turnover p.a. LLP Firm	
	Below KSh 1 Million	Over KSh 1Million	Below KSh 1 Million	Over KSh 1Million
1	KSh 10,000	KSh 20,000	N/A	N/A
2 – 5	KSh 30,000	KSh 50,000	KSh 30,000	KSh 50,000
More than 5	KSh 50,000	KSh 100,000	KSh 100,000	KSh 200,000

The firms were also required to pay additional licence fees of kshs. 7,500 for every branch operating outside the registered head office.

### 3. MANDATORY TRAININGS FOR PRACTITIONERS

Under IES 7, Continuing Professional Development<sup>2</sup> (2014), IFAC member bodies require all professional accountants to develop and maintain professional competence relevant and appropriate to their work and professional responsibilities. IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (2016) applies this IES 7 requirement to the role of an Engagement Partner. It is the responsibility of the professional accountant performing the role of an Engagement Partner to develop and maintain professional competence by undertaking relevant CPD activities, which include practical experience.

IFAC member bodies shall require professional accountants performing the role of an Engagement Partner to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes including, but not limited to, those listed in Table A

The council in compliance with requirement of IES 8 introduced mandatory training for engagement partners on Audit and Financial reporting.

### 4. RECOMMENDATION BY THE COUNCIL

- That the firm licensing be retained but the fee be rationalised in an equitable manner
- That any changes to the fee be subjected to public participation by members
- That the mandatory trainings be retained for all practitioners
- The PII – professional insurance indemnity to continue
- Branch licences to be retained but license fee to be reduced to Ksh 5,000

## 5. NEW PROPOSED FEE STRUCTURE

The below table contains the revised firm fees based on discussions and feedback from members to disregard the number of partners and the LLP conditions as had taken centre stage during the initial setting of the firm fees

Table 1: Based on turnover

	<b>Fees based on annual Turnover for all the categories: Category A, T and Category M</b>									
	Lower band for small and practitioners (turnover Shs.0M – shs.1M)			Middle band for middle level practitioners (turnover Shs.10M – Shs.50M)			Higher band level for mature practices (turnover Shs.50M – Shs.250M)			Large firms
Turnover in Millions	Below KShs 0.5	KShs 0.5 – 0.75	KShs 0.75-1	KShs 1 – 10	KShs 10 – 20	KShs 20M – 50	KShs 50 – 100	KShs 100 – 200	KShs 200 – 250	KShs 250<
Firm Fee	KShs 5,000	KShs 7,500	KShs 10,000	KShs 30,000	KShs 75,000	KShs 150,000	KShs 300,000	KShs 450,000	KShs 750,000	KShs 1,500,000

Branch Fee be reduced to kshs. 5,000

## SUBMISSIONS ON THE PROPOSED CPA PRACTICE FIRM ANNUAL LICENSE FEE

---

	Lower band for small and practitioners (turnover Shs.0M – shs.1M)			Middle band for middle level practitioners (turnover Shs.10M – Shs.50M)			Higher band level for mature practices (turnover Shs.50M – Shs.250M)			Large firms	JUSTIFICATION
Turnover in Millions	Below KShs 0.5	KShs 0.5 – 0.75	KShs 0.75-1	KShs 1 – 10	KShs 10 – 20	KShs 20M – 50	KShs 50 – 100	KShs 100 – 200	KShs 200 – 250	KShs 250<	
Firm fee											