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Republic of Uganda

Uganda ROSC A&A

2014

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REPUBLIC OF UGANDA
REPORT ON THE OBSERVANCE OF STANDARDS AND CODES
ACCOUNTING AND AUDITING
2014

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MAIN ABBREVIATIONS AND ACRONYMS

(Currency: Ugandan Shilling)

| | |
|------|------------------------------------------|
| A&A | Accounting and Auditing |
| AGO | Accountant General's Office |
| BoU | Bank of Uganda |
| CAS | Country Assistance Strategy |
| GAAP | Generally Accepted Accounting Principles |
| GDP | Gross Domestic Product |
| GoU | Government of Uganda |

| | |
|--------|-------------------------------------------------------------|
| FDI | Foreign Direct Investment |
| ICPAU | Institute of Certified Public Accountants of Uganda |
| IDF | Institutional Development Fund |
| IFAC | International Federation of Accountants |
| IMF | International Monetary Fund |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IIA | Institute of Internal Auditors |
| IPSAS | International Public Sector Accounting Standards |
| MoFPED | Ministry of Finance, Planning and Economic Development |
| MoT | Ministry of Trade |
| NPD | National Development Plan |
| NSSF | National Social Security Fund |
| PIE | Public Interest Entity |
| PSC | Project Steering Committee |
| SACCO | Savings and Credit Cooperative Societies |
| SME | Small and Medium-sized Enterprise |
| SMP | Small and Medium-sized Practice |
| SMO | Statement of Membership Obligations |
| URA | Uganda Revenue Authority |
| USE | Uganda Stock Exchange |

PREFACE

The international financial community considers that the implementation of internationally recognized standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency. The Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC A&A) program is part of a 12 module¹ joint World Bank-IMF initiative on assisting member countries to

¹The 12 ROSC modules are;

| Macroeconomic Policy And Data Transparency | Financial Regulation and Supervision | Institutional and Market Infrastructure |
|-----------------------------------------------|-----------------------------------------|--------------------------------------------|
| Monetary and Financial Policy Transparency | Banking Supervision | Payment System |
| Fiscal Transparency | Securities Regulation | Insolvency and Creditor Rights |

strengthen their financial systems by improving capacity to comply with internationally recognized standards and codes.

The ROSC (A&A)² program focuses on the institutional framework underpinning national accounting and auditing practices, and their conformity with international standards and good practices. It evaluates (a) the adequacy of the reporting requirements, (b) the capacity to implement applicable standards and codes, and (c) the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes.

This second³ Uganda ROSC (A&A), a follow up to the 2005 report, was conducted by the World Bank at the request of the Government of Uganda. It aims to determine what reforms should be undertaken to further strengthen the accounting and auditing institutional framework that is critical in contributing to Uganda's economic growth.

ACKNOWLEDGEMENTS

The review was conducted by a World Bank team comprising: Paul Kato Kamuchwezi (Task Team Leader, Financial Management Specialist, AFTME); Aleksandar Kocevski (Operations Officer); Edwin Moguche (Financial Management Specialist, AFTME); Joseph Balikuddembe (Consultant) and Sonny Mabheju (International Consultant). Quality assurance was done by Patrick UmahTete, (Senior Financial Management Specialist and Sector Leader), and Patricia McKenzie, (Manager, Financial Management, East and Southern Africa). The report also benefited from the support, comments and suggestions received from the peer review team; Patrick Kabuya (Senior Financial Management Specialist, AFTME); Szymon Radziszewics (Senior Technical Manager, Member Body Development IFAC); Liam J. Coughlan -RIP (Senior Financial Management Specialist, Centre for Financial Reporting Reform, ECA); Moses Kibirige (Senior Private Sector Development Specialist, FPD); Gabriella Kusz (Consultant, MNAFM). The team also acknowledges the contributions made by ICPAU and the various stakeholders who participated during the review.

EXECUTIVE SUMMARY

This 2014 ROSC A&A is the second review for Uganda. Its main objectives are to; assess the degree to which the policy recommendations of the 2005 review have been implemented, identify any emerging issues since the last review, and develop policy recommendations that if implemented will further enhance the quality of financial reporting in Uganda. This will contribute to improved business environment and investor confidence thus contributing to sustainable economic growth which is a major macro-economic objective in Uganda's National Development Plan.

| | | |
|--------------------|-----------------------------------------------------------------|----------------------|
| Data Dissemination | Insurance Supervision | Corporate Governance |
| | Anti-Money Laundering and Countering the Financing of Terrorism | Accounting |
| | | Auditing |

² An overview of the ROSC (A&A) program, including detailed methodology, is available at <http://www.worldbank.org/ifa/roscaa.html>.

³ Letter from the Ministry of Finance, Planning and Development of the Republic of Uganda dated November 14, 2013

Uganda has made progress in strengthening its pillars of corporate financial reporting but more needs to be done. All the nine broad policy recommendations made in 2005 have been addressed to different degrees. Two, i.e. (CPD and collaboration with regional professional accountancy bodies) have been implemented in full. One, i.e. establishment of an independent oversight authority was modified by establishing a Quality Assurance Board within ICPAU but not reporting to the Council of the Institute. Six are at different stages of being addressed and they include: (a) improving the statutory framework for accounting and auditing whereby the Companies Act 2012, or its regulations should provide direct mandate for the application of IFRS and ISA; (b) improving coordination among regulators in order to increase regulatory efficiency and effectiveness; (c) improving on the monitoring and supervision of accredited training institutions by ICPAU and NCHE to ensure standards established at accreditation are maintained; (d) ensuring the ICPAU satisfies all the IFAC statements of membership obligations; (e) strengthening the capacity of regulatory bodies except for BoU and Insurance Commission to check for compliance with applicable standards and laws; and (f) strengthening ICPAU's technical department to enable it meet its responsibilities and obligations.

Notable progress was seen in a number of areas. Various statutes have been amended or replaced, leading to some improvements in the statutory financial reporting requirements. The IFRS for SMEs has been adopted. There are a number of regulators aimed at improving stability and the quality of financial reporting in the regulated sectors. The accountancy profession has from an overall perspective been improved, and the new Accountants Act 2013 aims to further strengthen the Institute and improve its regulatory impact with the establishment of the Quality Assurance Board. The Public Accountants Examinations Board of the Institute as provided for in the new Accountants Act 2013 will further improve the quality of accountancy education. The Institute is already setting, moderating, and marking its own examinations. The Institute has made significant development in the provision of Continual Professional Development (CPD) to its members. The ongoing implementation of the International Public Sector Accounting Standards (IPSAS) by the Ministry of Finance, Planning and Economic Development (MoFPED) when successfully completed, will contribute to improved accountability in the public sector. Reciprocal recognition arrangements have been made with institutes in Kenya, Tanzania, Rwanda, and Burundi under the association of the East African Certified Institutes of Accountants.

Key areas that require further institutional improvement, either as a result of being partly implemented in the 2005 policy recommendations or due to emerging issues and related recommendation are summarized below.

- Regulation of the accountancy profession will be done by the Quality Assurance Board which was established by the Accountants Act 2013 as part of the Institute's Governance structures. This raises two issues that need to be addressed; (a) the capacity of ICPAU's technical department to effectively perform the review function and (b) the independence of the Board to impartially discharge its responsibilities including imposing sanctions on ICPAU members where necessary. To address these issues, the report recommends that ICPAU should constantly review its technical capacity to conduct effective reviews and when necessary recruit more staff with appropriate qualifications, training, and experience. The regulations of the Accountants Act 2013 should also require, to be included in the Board,

representatives of the various financial sector regulators in Uganda. This will help improve the independence of the Board. On an ongoing basis, stakeholders must continuously review whether this type of regulation remains an appropriate mechanism of particularly overseeing the quality of external auditors of public interest entities.

- The various changes to financial reporting requirements recently adopted, including; requirements to comply where required with IFRS, IFRS for SMEs, IPSAS, ISA, etc still require legal backing. This backing can be mandated through regulations to the existing relevant Acts, such as the Companies Act 2012, Accountants Act 2013 and the Public Finance and Accountability Act 2003 or included in the regulations of the proposed Public Finance and Accountant Bill. This is because regulations are easier to amend whenever there are changes in accounting and auditing standards as opposed to the legislations. With this done, Uganda's financial reporting requirements will remain aligned to the fast changing international requirements.
- The monitoring of practical training is not part of the qualification requirements for ICPAU membership which affects the quality of accountants in Uganda. To ensure that ICPAU's training requirements produce accountants with practical experience, there is need to develop a monitored practical training system that is offered by employers accredited by ICPAU. This practical training should be done over a reasonable timeframe and made a mandatory requirement of the ICPAU professional accounting qualification.
- ICPAU has not yet adopted the IESBA Code of Ethics for Professional Accountants. It is therefore recommended that ICPAU through the regulations to the Accountants Act 2013, adopt the IESBA Code of Ethics for Professional Accountants and enforce it. The Institute's quality assurance department should as part of its responsibility enforce the code of ethics, particularly with respect to ICPAU members who are in public practice and do provide services related to the IAASB Pronouncements.
- The MoFPED is implementing IPSAS but has not been getting technical advice from ICPAU. The Accountants Act 2013 now provides ICPAU the role of being an advisor to government of matters related to implementing IPSAS and this can be a good stepping stone for the institute and MoFPED to further work closely in implementing the standards. ICPAU also needs to revise its syllabus to incorporate public sector accounting stream such that it can provide quality education to its accountants that go ahead to be employed by the government. This will ensure there is strong sustainable mechanism of producing accountants that will continuously comply with IPSAS.
- The Banks and Uganda Revenue Authority make use of financial statements prepared and/or audited by unqualified and unregulated accountants which compromises the quality of financial statements in the country. Part of the challenge is that the Ministry of Trade (MoT) issues trading licenses to any person to pause as an accountant. This issue needs to be addressed by all players under the coordination of ICPAU and MoFPED such that the quality of financial statements is enhanced by having only qualified and regulated accountants producing them.

Other areas that need to be attended to include; (a) further strengthening all regulators to ensure they have the capacity to effectively regulate compliance with accounting and auditing

standards; (b) monitoring of accountancy training institutions to ensure standards remain high; (c) mobilize funding for ICPAU training material; (d) continuously monitoring ICPAU's capacity to meet the IFAC SMOs, which is an indicator of its ability to meet its responsibilities to its stakeholders; and (e) defining small and medium enterprises in the context of Uganda such that IFRS for SMEs and micro entities can be disseminated to them.

A major challenge to be overcome is to transform these recommendations into real and effective reforms that will help to enhance the quality of financial reporting and deliver a financial reporting framework conducive to sustainable economic growth, thus improving the quality of life for all Ugandans. This is a shared objective of this report and the Government of Uganda as stated in its 2012/2013 and 2013/2014 National Budgets.

Going forward, the above key policy recommendations should form the basis for a stakeholder driven Country Action Plan which should be regularly monitored to ensure it is effectively implemented. This will improve financial reporting in both the private and public sector and therefore play a role in enhancing transparency and accountability which are key ingredients in attracting private sector investors and thus lead to economic growth as well as improve on public service delivery.

I INTRODUCTION& COUNTRY CONTEXT

Introduction

1. This second ROSC A&A assesses the degree to which the findings and policy recommendations of the first review have been implemented. The report identifies and assesses issues that have emerged after the first review. From these assessments, the World Bank team identifies the root causes of failure to implement the proposed recommendations. It makes policy recommendations aimed at further improving the quality of financial reporting, which should contribute to lowering the cost of borrowing and enhance private sector competitiveness; ultimately contributing to the attainment of Uganda's strategic objectives aimed at achieving; (i) inclusive and sustainable growth, (ii) job creation, and (iii) improved governance. These are themes in the 2012/2013 and 2013/2014 & Uganda National Budgets.

2. To facilitate collection of data for the review, the ROSC A&A team used a diagnostic template developed by the World Bank. Additional data and information including the status of implementation of 2005 recommendations was collected during a series of meetings held with various key stakeholders. The review uses IFRS⁴, ISA, International Education

⁴ IFRS are issued by the International Accounting Standards Board (IASB), an independent accounting standards-setter based in London, UK. The IASB adopted all the International Accounting Standards (IAS) previously issued by the International Accounting Standards Committee (IASC). IFRS in this report will comprise; IFRS, IAS, and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standards Interpretations Committee (SIC).

Standards (IES)⁵, and Code of Ethics for Professional Accountants⁶ as benchmarks and draws on international experience and good practice in accounting and auditing.

Country context

3. Uganda⁷ is a land locked country lying on the equator in East Africa. It shares borders with South Sudan, Democratic Republic of Congo, Rwanda, Tanzania, and Kenya. 20% of the country is covered by inland lakes. The rest ranges from tropical rain forest to savannah. It has a population of about 35million, of which 49% is below the age of 14and only 6% is urban⁸.

4. The country has substantial natural resources; including fertile soils, regular rainfall, copper, gold, cobalt, and recently discovered oil reserves. Oil production is expected to change Uganda's economic outlook, but production is not expected until 2016. Agriculture is the dominant sector, employing over 80% of the work force⁹. The main agricultural products are coffee, tea, cotton, cassava, potatoes corn, flowers, beef, goat meat, milk, and poultry. The country also has fish and fish products.

5. The main exports are coffee, fish and fish products, tea, cotton, tobacco, flowers, horticulture products, minerals; while imports include capital equipment, vehicles, petroleum products, medical supplies, and cereals.

6. Uganda experienced sustained economic growth between 1990 and 2000 averaging 6.5%. This was driven by private investment particularly in construction, tourism and agricultural and mineral exports. However, on the back of a succession of shocks over the most recent five years, the fiscal position deteriorated, inflation soared to double digits and growth slowed to 3.4% in 2012. It took determined monetary and fiscal adjustments, helped by tapering off of shocks for the economy to start recovery in 2013 when growth was expected to be 5.8%. Growth in GDP per capita has been modest at 3.2 % due partly to fast population growth.

7. To achieve and sustain high growth and structurally transform the economy, Uganda needs to address a number of issues including: infrastructure bottlenecks, increase agricultural productivity, add value to commodities before exporting, manage urbanization, strengthen human capital base as detailed in the 2011 Country Assistance Strategy (CAS) report, and develop a clear and transparent institutional framework to ensure that future oil revenues are accounted for in a transparent manner.

8. The country has a very large informal business sector which is not regulated. There are approximately 176,000¹⁰ registered companies but the majority of them are not submitting annual returns making it difficult to establish the number operating.

9. The financial sector has seen significant reform in the past 15 years. It is dominated by the banking system with 26 commercial banks, four micro deposit taking institutions,

⁵ Issued by the International Accounting Education Standards Board of IFAC

⁶ Issued by the International Ethics Standards Board for Accountants of IFAC

⁷ It is a member of the East African Community

⁸ All figures from CIA World Fact book 2011-2012

⁹ Most of the agriculture is subsistence, causing vulnerability to the population.

¹⁰ Per Uganda Registration Services Bureau

three licences credit institutions, as well as many foreign currency bureaus and money remitters¹¹.

10. The Capital Market in Uganda is emerging. The pace is slow. With only 16 listed companies (eight¹² local listings and eight dual listings - all from Kenya), the Uganda Stock Exchange (USE) lacks depth and faces liquidity challenges. Trade volumes are low and most investors hold the shares for long periods.

11. There are 75 State Enterprises in the country, spread over the following sectors; energy- (seven), health-(five), education- (seven), information and communications- (eleven), gender-(six), trade and tourism-(eleven), lands and housing-(one), agriculture-(five), water and environment-(two), accountability-(eleven), security-(two), public works and transport-(three), and justice law and order-(two)¹³. The Parastatal Monitoring Unit in the MoFPED exercises a strategic economic monitoring role over the State Enterprises while their financial reporting requirements are controlled by the Public Finance and Accountability Act 2003.

12. The insurance industry has grown over the years attracting foreign and local investors. As at September 2013, it had 22 insurers, 29 brokers, 16 loss assessors/adjusters, 961 agents and one re-insurer¹⁴. The Retirement Benefit Regulatory Authority to regulate retirement benefit funds started operating in December 2012. However a lot of its internal structures and regulations are still being developed.

13. SMEs and Micro-entities, as in many countries, are significant players in the economy and a major employer. Their access to finance is limited because of lack of collateral and poor financial reporting. Improved quality of financial reporting may increase access to finance by these entities with financiers relying more on high quality financial reporting than collateral.

14. Co-operative Societies are a significant sector in Uganda. The societies are many and vary in size, with some of them being very large in terms of members' deposits they hold. In addition to taking members' deposits they also advance loans to them. This makes them publicly accountable to their members.

15. The telecommunications sector has some of the biggest PIEs in the country. This is a very significant sector which includes many companies ranging in size from small to very large. Most of them are involved in the mobile money business. They are regulated by the Uganda Communications Commission.

II IMPLEMENTATION OF 2005 POLICY RECOMMENDATIONS

16. The Government of Uganda has successfully implemented a number of key policy recommendations in the 2005 ROSC A&A. These achievements, as with the request for this second review, demonstrate the Government's commitment to improve the financial

¹¹ All figures supplied by the Bank of Uganda

¹² The locally listed companies have a combined market capitalisation of about 3 trillion Shillings, nearly half of which relates to one counter.

¹³ All figures are from the Annual report of the Auditor General for the year ended June 30, 2013, Volume 4; Statutory Corporations

¹⁴ Figures from the Insurance Regulatory Authority of Uganda.

reporting in the country. The status of implementation of the 2005 ROSC A&A policy recommendations is summarised in the table below;

Status of Implementation of the Recommendations of 2005 ROSC A&A

| Recommendation | Status |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Improve the statutory framework of accounting and auditing:</p> <p>Legal and statutory reform should focus on;</p> <p style="padding-left: 40px;">Legally mandate the use of IFRS and ISA without modification</p> <ul style="list-style-type: none"> • Agree to a simplified financial reporting framework for SMEs | <p>Although some reforms were implemented, there is still room for further improvement.</p> <p>IFRS and ISA are not mandated directly by the Companies Act 2012 or its regulations. The announcement of adoption by ICPAU still requires legal backing.</p> <p>The IFRS for SMEs is also adopted through the Institute's regulations and not through the Companies Act 2012. Market awareness of this standard is limited and its implementation still not widespread.</p> |
| <p>An independent, adequately funded oversight body reporting to a minister and the legislature should set, monitor, and enforce accounting and auditing standards and codes. The oversight body should be responsible for the following activities;</p> <ul style="list-style-type: none"> • Setting accounting and auditing standards • Licensing auditors • Practice review for auditors of public interest entities, investigating complaints, and protecting stakeholder and public interest. • Monitoring compliance with accounting standards • Enforcing sanctions for violations | <p>The Institute continues to play the role of regulator of the accountancy profession and the new Accountants Act 2013 reinforces the Institute's role in this regard by establishing a Quality Assurance Board within the Institute. This was a modification of the recommendation.</p> |
| <p>Ensure co-ordination among regulatory and professional bodies for improving compliance practices. The regulatory bodies need co-ordination in order to function cohesively and ensure sustainable, high quality corporate financial reporting.</p> | <p>This recommendation is in the process of being implemented. From August 2013, three regulators; the Uganda Registration Services Bureau, Uganda Revenue Authority, and Kampala Capital City Authority started collaboration aimed at linking up their data to enhance synergies.</p> |
| <p>Enhance professional education and training: Up to date IFRS and ISA should be readily available to all players;</p> | <p>The Institute is involved in activities aimed at improving the quality of graduates intending to train as professional accountants. It has specifically taken charge of Stage 2 of the qualification to ensure it complies with IES 2 "<i>Content of Professional Accounting Education Programs</i>". The introduction of The Public</p> |

| Recommendation | Status |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Preparers; Directors of PIEs should be made aware of their responsibilities with regard to financial reporting, and corporate accountants should get training to help them in the preparation of IFRS based financial statements • Regulators; Staff of CMA, USE, BoU, Uganda Insurance Commission, and other regulators could better enforce accounting standards by receiving IFRS theoretical and practical training • Auditors; Auditors of PIEs should get practical training to help them to audit IFRS based financial statements and to comply with ISA • The ICPAU syllabus; Global developments in accounting and auditing should be reflected in the education and training arrangements by the ICPAU on a timely basis. Business ethics should be taught as a subject. The curriculum for 2006 should conform to IFAC International Education Standards • Trainee Accountants; Practical experience leading to qualification as a professional accountant should be conducted under the direction of a mentor who is an experienced ICPAU member. The training environment should be assessed and approved by the ICPAU on an ongoing basis. The ICPAU should give written guidance to employers, mentors and trainees regarding the program of practical experience • Students; Implement centrally co-ordinated initiatives for curriculum development and better teaching practices to ensure quality standards in accounting and auditing courses in all Uganda Universities and colleges. Efforts should be made to make IFRS and ISA learning materials easily accessible and less costly to students | <p>Accountants Examinations Board by the Accountant Act 2013 will contribute to further strengthening the education initiatives of the Institute</p> <p>The Accountant Act 2013 took the recommendation into account by requiring all heads of finance, accounts, and internal auditors of PIEs in both the private and public sectors to be members of ICPAU. This will be implemented once the Act comes into force.</p> <p>This has not been implemented except for Insurance Commission and Bank of Uganda (BoU)</p> <p>Most PIEs are audited by firms with their own global training arrangements. Any SMPs without global affiliation that audit PIEs will need to be monitored closely by ICPAU.</p> <p>The control of Stage 2 of the qualification by ICPAU for those students preparing for the Institute's examination is part of the implementation of this recommendation</p> <p>The ICPAU is working on the recommendation but implementation is not yet in force.</p> <p>This has not been fully implemented but ICPAU in collaboration with the NCHE is in the process of addressing syllabi and curriculum development for institutions offering training leading to its qualification. These efforts are supported by the functions of the Public Accountants Examinations Board established by the New Accountants Act</p> |

| Recommendation | Status |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Training providers and teachers; To qualify as an authorised training provider, an individual should have sufficient knowledge and experience with practical aspects of all the applicable standards and codes. Teaching should be practical oriented. The skills of some existing educators should be upgraded with train- the-trainer programs. | <p>2013 which will soon be in force. The issue of making training material easily accessible by students at reasonable cost still needs to be addressed and it is one of the issues ICPAU still faces as a challenge and is seeking funding for.</p> <p>The monitoring and supervision of training providers still needs to be further improved to ensure they maintain the standards they have at registration time. To effectively achieve this, the NCHE needs to be strengthened further and work in collaboration with the ICPAU to conduct robust monitoring and supervision of the training institutions. The monitoring and supervision will include ensuring training institutions insist on their lecturers keeping themselves up to date.</p> |
| <p>CPD should be made compulsory and should be regularly monitored. ICPAU requirements on CPD should be brought in line with the IFACIES 7; <i>“Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence”</i>.</p> | <p>This has been implemented.</p> |
| <p>Fulfill all IFAC Membership Obligations</p> | <p>Different SMOs are at different stages of implementation.</p> |
| <p>Strengthen the capacity of ICPAU; The financial and technical capacity of the ICPAU needs to be strengthened to enable it meet the IFAC membership and other obligations.</p> | <p>Financial and technical capacity is cited as some of the challenges ICPAU still faces in meeting its IFAC membership obligations. It needs to enhance its technical capacity to perform effective audit quality reviews that meet the requirements of IFAC SMO 1- <i>“Quality Assurance”</i>. Enhanced technical capacity will also enable the ICPAU to improve on service to students (by making training material available and at reasonable cost) and members (particularly Small and Medium Sized Practitioners). Technical resources are also needed to further improve the professional role of ICPAU as a centre of technical knowledge and a repository of all issues to do with accounting and auditing for the benefit of the wider community. All these obligations require funding.</p> |
| <p>Strengthen the capacity of the regulatory bodies</p> | <p>The regulatory bodies with the exception of the BoU and Insurance Commission still need significant capacity strengthening.</p> |
| <p>Utilise limited capacity effectively by joining efforts on a regional basis</p> | <p>In 2011, a Mutual Recognition Agreement was signed with institutes in Burundi, Kenya, Tanzania, and Rwanda to facilitate collaboration and mutual recognition in various areas of common interest. The outcomes are still to be realised.</p> |

III. INSTITUTIONAL FRAMEWORK

This section sets out weaknesses in the institutional framework still existing after implementing the 2005 policy recommendations. It also identifies emerging institutional framework issues after 2005. It focuses on requirements for compliance, capacity to comply and enforcement, including sanction. The sustained growth agenda set by the Government of Uganda requires robust financial reporting, underpinned by a strong institutional framework.

IIIA. Statutory Framework

“Adequate Requirements are a set of clear, consistent, proportionate, comprehensive, fair, and up-to-date laws and supporting regulations, as well as rigorous standards for A&A are necessary for a robust financial reporting system.”¹⁵

17. Since the 2005 ROSC A&A, statutory changes aimed at further improving the requirements for high quality financial reporting in Uganda have been made and some are in the process of being developed. However, some of the changes are still far short of aligning statutory financial reporting requirements to international standards and codes, and international good practice. Additionally, some new financial reporting requirements¹⁶ have emerged and need legal backing.

The Companies Act 2012: This new Act provides for accounting and auditing requirements for all private and public companies and replaces the Companies Act Cap 110 (1961).

- The Companies Act 2012 does not prescribe any financial reporting framework except complying with the Fifth Schedule of the Act which is a disclosure and presentation guide. ICPAU adopted IFRS. Given the rate of changes in new and existing IFRS, gaps may exist between the requirements of IFRS and those of the Fifth Schedule, which is fairly static.
- The Companies Act 2012 requires every company irrespective of size and/or public interest status to appoint an auditor and be audited.
- The Companies Act 2012 requires consolidation where a company holds more than half the nominal value of the equity share capital of another company. This is not necessarily consistent with the new concept of “control”¹⁷ in IFRS10- *Consolidated Financial Statements* when deciding whether to consolidate an investment or not, “Control”, rather than percentage holding is the deciding factor under IFRS 10.

¹⁵ “Accounting for Growth in Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development” A World Bank Publication.

¹⁶ Examples are IFRS for SMEs. A Guide for Micro-size Entities Applying IFRS for SMEs, Clarified ISA, IPSAS etc.

¹⁷ IFRS 10 allows an entity to consolidate an investee only when it controls the investee. Control occurs when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

- The Companies Act 2012 does not embrace the concept of Public Interest and differential reporting. The Act requires all companies irrespective of size and their situation and circumstances to comply with the requirements of the Fifth Schedule. The Act does not distinguish financial reporting frameworks under IFRS, IFRS for SMEs and Micro-entities. Effective financial reporting requirements should be proportionate; structured such that public interest entities, (typically regulated companies, state owned enterprises and large private companies) are subjected to more stringent reporting requirements while SMEs and Micro-entities are subjected to few and less stringent requirements.

18. Most players in the financial statements supply chain are not aware of the existence of the “IFRS for SMEs” and “A Guide for Micro-sized Entities Applying the IFRS for SMEs”¹⁸. These standards are important in reducing the financial reporting cost on the entities they apply to. ICPAU needs to increase its awareness campaign to make the market cognisant of these two financial reporting frameworks and assist in their successful implementation.

19. Currently there are no definitions of public interest entity, small and medium size entity and micro-entity in the law to support the related financial reporting frameworks. The definition of SME by ICPAU in its guidelines requires legal backing. The development of these definitions is necessary and should involve wide stakeholder consultations but driven by the Institute as the regulator responsible for financial reporting. The law should (through regulation) require large private sector corporations that are not listed and do not belong to regulated sectors but are public interest entities (in terms of quantitative characteristics) to report and file financial statements with the Institute for review. This will give the Institute the much needed legal support in this regard.

20. The Companies Act 2012 requires every company to file annual returns with the Uganda Registration Services Bureau within 42 days of the year end. For public companies¹⁹, the annual returns should be accompanied by a balance sheet and auditors’ report. Private companies²⁰ are not required to file financial statements. This means the Uganda Registration Services Bureau and the public have no access to the financial statements of private companies, irrespective of size and public interest responsibilities. This is not consistent with the same Companies Act 2012 requirement for all companies’ financial statements to be audited. Not filing financial statements makes them not publicly available, limiting the use which can be made of them in decision making. Failure to comply with filing requirements attracts a fine of 25 currency points²¹ for the company and all officers of the company in default.

21. Audited financial statements for public companies are available at the Uganda Registration Services Bureau on payment of a fee. However, financial statements of private companies are not filed and, therefore, not readily available to the public.

¹⁸ This standard was issued in 2013 and is meant for micro entities that are too small to use the IFRS for SMEs. It is a guide that accompanies, but is not part of the IFRS for SMEs.

¹⁹ A Public company is a company which is not a Private company; Section 6 Of the Companies Act 2012

²⁰ A private company is a company which by its articles, restricts the right to transfer its shares and other securities, limits the number of its members to 100 excluding current and former employees, and prohibits any invitation to the public to subscribe for any of its shares or debentures; Section 5 of the Companies Act 2012.

²¹ One currency point = 20 thousand shillings

22. The financial reporting statutory framework does not provide for financial statements of entities with significant public interest to be monitored and reviewed independently. The Accountants Act 2013 is silent on the issue of financial statements monitoring and review. This means ICPAU cannot demand financial statements from large private companies that have public interest for review.

23. The Public Finance and Accountability Act 2003 (PFAA 2003) prescribes financial reporting requirements for Government and public organisations/state enterprises. The Act is to be replaced by the Public Finance Act 2013/2014 which is still at bill stage. The PFAA 2003 requires financial statements of state enterprises to be prepared in accordance with GAAP²². The definition of GAAP in the Act does not explicitly mention the fact that some state enterprises may more appropriately use IFRS while others may use IPSAS, depending on the nature of operations and extent of government support. As required, the Accountant General issues annually financial reporting instructions to government institutions for guidance.

24. The Capital Market Authority was established under the Capital Markets Authority Act 1996. It regulates the securities market including the Uganda Securities Exchange. The Authority has no direct responsibility over financial reporting by listed companies, which are regulated by the Uganda Stock Exchange.

25. Financial reporting requirements by listed companies are set by the Uganda Securities Exchange under the Uganda Stock Exchange Listing Rules. The Stock Exchange is self-regulatory; it creates, amends, and implements its own rules and regulations. The Listing Rules require preparation of annual audited financial statements in accordance with applicable national laws and international accounting standards. Audited financial statements should be submitted to the Stock Exchange within four months of the year end and published in the newspapers 21 days before the annual general meeting. Interim²³ and quarterly reports should be published in the newspapers within nine months of the beginning of the financial year.

26. Financial statement reporting requirements for banks and non-banking financial institutions are set by The Financial Institutions Act 2004 and the Micro-Finance Deposit Taking Institutions Act 2003, respectively. Both Acts require compliance with IFRS. Bank auditors are required to audit in accordance with ISA. Banks are required to submit audited financial statements to the BoU within three months of year end and non-banking financial institutions within four months. Both financial statements are to be published in newspapers four months after year end. The paragraphs in the Insurance Act and the Micro Deposit-Taking Institutions (MDI) Act which require “financial ledgers and financial records” to be prepared in accordance with International Accounting Standards but not mentioning financial statements need to be properly worded. A financial institution that fails to submit audited annual financial statements within the prescribed period shall pay to the BoU a civil penalty of 20 currency points for every default.

²² This is defined in the PFAA 2003 as; “accounting practices and procedures recognised by the accounting profession in Uganda and approved by the Accountant General as appropriate for reporting financial information relating to Government, a Ministry, a fund, an agency or other reporting unit, and which are consistent with this Act and any relevant Appropriation Act” with no separate definition for state enterprises.

²³ External auditors should review their interim reports if the committee of the Uganda securities exchange deems it necessary

27. Insurance Companies financial reporting requirements are set by the amended Insurance Act 2011 and related regulations. The Act requires insurance companies to file with the Commission within 120 days of the year-end, financial statements audited by an auditor drawn from a prequalification list and approved by the Commission²⁴. The Act does not make specific reference to IFRS. The Insurance Regulations 2002 prescribe the form of the balance sheet, cash flow statement and profit and loss account to be submitted to the Insurance Regulatory Authority. These are not compliant with IFRS but are to be signed off by the auditor. Given the adoption of IFRS by ICPAU, it means insurance companies are required to prepare two different sets of financial statements both signed by the auditor.

28. The Co-operative Societies Act 112 regulates financial reporting by registered societies. Every registered society is required to have its financial statements audited annually by an auditor approved by the registrar of co-operatives. The auditor shall be a member of a recognised accounting body. The audited financial statements are to be submitted to the registrar within three months of year end. There is no definition of recognised accountancy body in the Act. The Act requires the audit to be conducted in accordance with generally accepted professional audit standards and in addition include audit of management efficiency. Generally accepted professional audit standards are not defined in the Act and Uganda has no such national standards. Most co-operative societies cannot afford professional auditors who are members of ICPAU. This gap is filled by a team of co-operative officers in the Department of Co-operatives who provide audit services to such co-operatives. Additionally, there is no prescribed accounting framework to be used by co-operative societies in the Act. The Department of Co-operatives has developed templates of financial statements. These do not comply with IFRS and yet most audit opinions state that the financial statements have been prepared in compliance with IFRS. The Co-operative Society's regulations require SACCO accounts to be prepared in accordance with Generally Accepted Accounting Procedures and Practices, but these are not specified. The quality of financial statements preparers and auditors in this sector requires significant improvement.

29. The Retirements Benefits Regulatory Authority regulates retirement benefit schemes. The Authority was established in December 2012, and various regulations are being documented which will include accounting and auditing requirements for entities falling under their supervision. Staff recruitment is in progress. They intend to do financial statements reviews in-house and place limited reliance on external auditors.

30. The Uganda Communications Commission - UCC regulates entities in the communications sector. It does not have specific statutory financial reporting and auditing standards requirements for the companies it regulates.

31. Financial reporting by different entities is still covered by different laws. This has resulted in continued financial reporting which in a number of instances is not consistent, not coherent, not comprehensive, not proportionate and not up-to-date as different laws are at different stages of development and updating.

²⁴ Where the financial statements are audited by the Auditor General, the approval by the Commission is not required.

IIIB. Accountancy Education and Training

A sound education and training system (from pre-qualification to post-qualification) producing and maintaining well trained accountants and auditors assists in compliance with standards and codes, leading to high quality financial reporting practices.

32. There are various qualifications²⁵ recognised for entry to ICPAU training and membership. The quality of the entry qualifications differs depending on the institution offering the qualification.

33. ICPAU is not involved in the provision of tuition. This is provided by various training institutions. There are 15 training institutions offering accountancy programmes and are currently not accredited by ICPAU. However, ICPAU is in the process of preparing an accreditation program. It is expected that due to the quality requirements that will be imposed, the number of training institutions will significantly decrease.

34. The Accountants Act 2013 established the Public Accountants Examinations Board within ICPAU. Its functions include; determining the syllabi and curricula in respect of examination in the field of study, conduct examinations of the Institute, appoint examiners and moderators, and make rules to govern institute examinations²⁶. The Board²⁷ submits the developed syllabi and curricula to the NCHE for approval. However, the Council's human and technical capacity to assess the syllabi and curricula needs to be improved. Regarding accountancy syllabi for other training institutions, ICPAU has been reviewing for quality and giving advice to NCHE. This has now been given legal backing by the new Accountants Act 2013. The limited capacity at NCHE forces ICPAU to deal directly with the universities in assessing syllabi and curricula. The Board operates two types of qualifications: Certified Public Accountants of Uganda [CPA (U)], and the Accounting Technicians Certificate of Uganda [ATC (U)]. Development of education material is at times hampered by financial constraints. ICPAU needs to ensure that its education syllabi meets IES requirements and is kept up-to-date with all current developments. ICPAU should ensure it consults the recently revised IESs that place greater emphasis on output/competency based approach to professional accountancy education. This is a challenge which requires significant technical and financial resources, especially considering the frequent changes in the international financial reporting framework.

35. Currently there is no training in public sector accounting syllabus administered by ICPAU. Emphasis in accountancy training at tertiary and professional levels is in private sector accounting. The public sector in Uganda is large and handles a significant proportion of national resources. Monitored and supervised training in public sector accounting (currently not monitored/supervised by ICPAU and dispersed within different training

²⁵ These include; degree/diploma from recognised universities, accounting technician from recognised professional bodies, Advanced level, foreign accountancy qualifications (to write variant conversion papers in business law and tax)

²⁶ This is a significant milestone for Uganda having its own in-country professional accountancy qualification. What remains is to strengthen it and have the necessary international mutual recognition arrangements with other strong institution.

²⁷ The syllabi and curricula developed jointly with the National Curriculum Development Centre which is under the Ministry of Education and Sport.

providers) will produce high quality graduates and make the implementation of the IPSAS effective, and contribute to improved accountability and transparency in the public sector.

36. Tertiary training institutions, including universities and ICPAU should collaborate to improve the quality of graduates joining the job market or proceeding to professional training. Stakeholders expressed concern that most graduates require significant training when they join the job market. The same concern was raised by professional accountancy trainers who indicated that there is a big knowledge gap between professional accountancy training entry level expectation and actual knowledge graduates have upon joining the companies. Quality of training and syllabi content at the institutions need to be rigorously monitored by ICPAU and NCHE, ensuring that it is in line with IES²⁸ and meets market expectations.

37. ICPAU requires practical training to be undertaken as part of the requirement for the ICPAU qualification. However, the minimum practical training period needed as part of the qualification requirements has not been defined within the new Accountants Act 2013. The issue should be addressed when developing regulations to the new Accountants Act 2013. The Institute requires financial and technical resources to effectively supervise the practical training offered to students by approved professional training providers. Accreditation of the training providers has not yet commenced.

38. The NCHE regulates providers of higher education. It licences and supervises the institutions, (which include universities, colleges and other tertiary training entities), and approves their syllabi and curriculum. Although it has capacity for setting minimum standards to enable initial licensing, it lacks resources for sustained supervision in the areas critical to the maintenance of quality of graduates. These areas are common to most providers of training in courses leading to entry levels for professional accountancy training like ICPAU. The areas include; training materials with updated IFRS and ISA requirements, quality of lecturers and how they cope with ever-changing standards, methods of teaching these changing standards, and attraction and retention of good lecturers. Some of the smaller universities do not have enough of the basic facilities, such as computers and other IT equipment.

IIIC. The Accounting and Auditing Profession

A strong national accountancy profession, internationally recognised and independently regulated, enhances financial reporting practices, increases investor confidence, and ultimately contributes to sustained economic growth.

39. A significant development since the last ROSC A&A is the enactment of the Accountants Act 2013, to replace the Accountants Act of 1992. The New Act seeks to amend, replace and consolidate the law relating to accountants in Uganda. It aims to bring the profession in conformity with international standards by regulating the accountants and the profession. It puts in place a Quality Assurance Board²⁹ and a Public Accountants

²⁸ Issued by the International Accountancy Education Standards Board of IFAC

²⁹ Whose functions shall include monitoring compliance with professional quality assurance and standards published by the Council and enforce regulations established under the Accountants Act 2013 to govern quality assurance programs.

Examinations Board³⁰ within the ICPAU. These developments require significant technical resources. To facilitate control, including effective and uniform regulation, the new Act requires all accountants, including those with foreign qualifications to register with the ICPAU before they are issued practicing certificates.

40. The ICPAU³¹ is the national body for professional accountants in Uganda. It is a member of IFAC and PAFA³². The profession is growing relatively fast, from 20 members in 1990 to about 1 800 at the time of this ROSC mission, and more than 151³³ registered practising firms. All the “Big Four” firms are present in the country. Most of the members hold foreign professional qualifications, mainly ACCA. Despite the existence of a national professional qualification, many students still decide to proceed with ACCA because of better access to high quality preparatory resources, higher pass rate than ICPAU, and the global mobility that ACCA certification offers, among other reasons.

41. As an IFAC full member, ICPAU has to meet the SMOs in order to satisfy its continued membership. Assessment of compliance is made using IFAC SMOs 1-7 (Revised) as benchmarks. The degree of compliance with these obligations gives an indication of ICPAU’s ability to serve its members, stakeholders and the wider community in Uganda on issues relating to high quality financial reporting. This ultimately contributes to the achievement of the country’s objective of sustainable economic growth. In assessing compliance with SMOs, due consideration was given to the applicability³⁴ framework and the best endeavours concept³⁵, as well as relevant factors specific to Uganda (for example priorities, processes, and challenges). In October 2013, the ICPAU updated its Action Plan³⁶ (a self-assessment document submitted to IFAC). As a self-assessment, our use of it was limited to being a source of information which was further verified during meetings with stakeholders.

ICPAU: Assessment of Current Status of Compliance with IFAC SMOs 1-7 (Revised)

| SMO | Degree of Responsibility³⁷ | Current Status & Challenges |
|------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SMO 1 <i>Quality Assurance</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing | The Institute is given mandate by the Accountant Act 2013 which establishes the Quality Assurance Board; enhancing the independence of the regulatory function. |

³⁰ The Examinations Board shall determine, the syllabi and curricula in respect of examination in the subjects of study; conduct examinations of the Institute; appoint examiners and moderators of the examinations; and make rules to govern professional education.

³¹ In 2011, the ICPAU, the Institutes of Certified Accountants in Rwanda and Kenya, the National Board of Accountants and Auditors in Tanzania and the Ordre des Professionnels Comptables (OPC) of Burundi signed a mutual recognition agreement aimed at mutual recognition of qualifications and cooperation in capacity building, standard setting and implementation, disciplinary measures, member education, and quality assurance reviews.

³² It was grandfathered from ECSAFA when PAFA was formed in 2012.

³³ April 2013—ICPAU figure.

³⁴ The “Applicability” hierarchy is “direct responsibility”, “shared responsibility”, and “no direct responsibility”

³⁵ The “best endeavours concept” applies to where an IFAC member body has no direct responsibility over an SMO. The member body should use best endeavour to encourage those with the responsibility for the requirement to follow the SMO or assist in the implementation where appropriate.

³⁶ This is a strategic document illustrating ICPAU’s continued compliance with SMO requirements.

³⁷ There is no SMO to which the ICPAU has no responsibility, implying that the ICPAU needs significant financial and technical resources to fulfil its membership obligations.

| | | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SMO 2 <i>International Education Standards for Professional Accountants and other IAESB Guidance</i> | Shared; with various education and training providers; ICPAU is responsible for designing syllabus/curricula and conducting examinations for both the technician and professional accountancy qualifications | Although the ICPAU has taken control of Stage 2 of the qualification to ensure it complies with IES 2, It still has a lot to do in terms of influencing tuition providers and monitoring practical training offered to students by training firms. Additionally, collaboration with the NCHE and the National Curriculum Development Centre needs to be further developed. It should, however, be noted that ICPAU, by developing syllabi, setting and marking examinations in addition to developing training material is significantly influencing tuition providers. |
| SMO 3 <i>International Standards, Related Practice Statements, and Other Pronouncements Issued by the IAASB</i> | Direct; The Accountants Act 2013 gives the necessary legal backing | The Institute is making effort to support the implementation of the standards and pronouncements but faces technical and financial challenges. Clarification of the pronouncements and standards to implementers is required on an ongoing basis. |
| SMO 4 <i>IESBA Code of Ethics for Professional Accountants</i> | Direct; The Accountants Act 2013 gives the necessary legal backing | The IESBA Code of Ethics for Professional Accountants has not yet been adopted. The Accountants Act 2013 requires the ICPAU to prescribe a Professional Code of Ethics through regulations under the Act. The ICPAU Code of Ethics currently in use needs to be updated to bring it in line with the latest IESBA Code. |
| SMO 5 <i>International Public Sector Accounting Standards and Other IPSASB Guidance</i> | Shared³⁸; with the Accountant General in the MoFPED. | The ICPAU has to support the MoFPED in the various stages towards the eventual application of full accrual IPSAS ³⁹ . At the moment there is little collaboration with the Ministry in this regard, especially in developing the syllabus. |
| SMO 6 <i>Investigation and Discipline</i> | Direct; The Accountants Act 2013 gives the necessary legal backing | The Act requires the establishment of a Disciplinary Committee of 5 members with one being an eminent person of good repute being a member of a profession other than accountancy. This is yet to be implemented after the Accountants Act 2013 is operationalized. |
| SMO 7 <i>International Financial Reporting Standards</i> | Direct; The Accountants Act gives the necessary legal backing | The three financial reporting frameworks; <i>IFRS, IFRS for SMEs and A Guide for Micro-size Entities Applying IFRS for SMES</i> have not been effectively communicated and clarified to the market. Some entities and professionals still wrongly view the IFRS for SMEs as an inferior framework of IFRS. |

42. With only two shared and five direct responsibilities, ICPAU requires significant financial and technical resources in addition to adequate supportive legal backing to

³⁸ The Accountants Act 2013 gives ICPAU the responsibility to advise government on matters of financial accountability and management. IPSAS is one such area ICPAU can advise government given this mandate.

³⁹ Uganda had a roadmap it used since 2005 for IPSAS application until it met implementation challenges to achieve full implementation for local and central governments. Implementation progress on state owned enterprises has been mixed, with capacity building required for most of the enterprises. The IPSASBoard issued Guidelines on migration to accruals IPSAS and Guidance on First Time Adoption of IPSAS (ED53) which is in its final stages of completion.

fulfil its IFAC membership obligations. Significant financial resources are required to attract and retain staff in the technical and education departments of the Institute and also in developing education material, administering examinations, including marking and moderation. Given the resource constraint, effective prioritisation and deployment of resources to those areas they have the greatest impact is important.

43. Structure of the audit firms and challenges faced by SMPs. In addition to the “Big Four”⁴⁰ and mid-tier global network firms, there is large number of local small and medium sized practices in the country, with one or a few partners and weak client bases. These small firms face challenges of resources necessary for them to comply with applicable standards. Attracting and retaining qualified staff is a challenge for most the firms. Weak resources base may lead to compromise of ethics and inappropriate financial reporting practices.

44. The profession is currently self-regulated by the ICPAU. Audit practice reviews are conducted by a team of three⁴¹ in ICPAU’s Technical Department. Under the old Accountants Act, the reviewers reported to the Technical Committee of the ICPAU Council. Under the new Accountants Act 2013, the reviewers will report to the Quality Assurance Board, a board of the Institute, separate from the ICPAU Council. The Board composition although an improvement on the previous arrangement where ICPAU Council was ultimately responsible for the reviews, it still leaves room for further improvement in terms of independence from the accountancy profession as demonstrated in the table below.

Composition of ICPAU Quality Assurance Board

| Member details | Number |
|------------------------------------------------------|----------|
| MoFPED representative | 1 |
| Office of Auditor General representative | 1 |
| Institute representatives nominated by ICPAU Council | 2 |
| Non accountant professional of good repute | 1 |
| Board Secretary, nominated by ICPAU Council | 1 |
| Total | 6 |

The Accountants Act 2013 is silent on voting rights of the members. This should be addressed when developing the regulations to the new act and included therein. The Chairperson is appointed by the Minister of Finance, Planning and Economic Development upon advise from the institute. Various sector regulators are not represented and the accountancy profession still has significant influence. The Board has no powers of sanction; instead it refers practitioner’s cases to the Disciplinary Committee of ICPAU. The proposed Board still does not give the level of protection to the public interest as would be given under an independent oversight authority with membership of the International Forum of Independent Audit Regulators. The perception of lack of independence still exists as evidenced by some stakeholders who expressed concern regarding this issue. Perception in the profession is divided; SMPs generally thought the quality of the reviews was adding value to their practices while the big four thought that improvements were required in order to gain value from the reviews.

⁴⁰ They audit 7 of the 8 locally listed companies.

⁴¹ This is perceived by some professional firms as inadequate to perform effective reviews given the number of firms.

45. Stakeholders are divided on how the accountancy profession should be regulated in Uganda. The majority feel that the current set up of regulating through the ICPAU with a strengthened independent Quality Assurance Board be maintained and, where necessary, further strengthened rather than establishing a new entity. The main arguments are that the economy and public interest entities are small to warrant establishing a separate regulatory body. They further argue that there are already too many regulators and adding another layer may cause inefficiencies and have cost implications. A few stakeholders argue that the size of the economy and extent of public interest entities in Uganda warrant the protection of the public interest through the establishment of an independent oversight authority.

46. There is a challenge of unqualified and/or unregistered practitioners providing professional services to the public. This has implications on the quality of services and financial reporting. It also is a credibility risk to the accountancy profession: when things go wrong. Some unregistered practitioners get trading licences from the Ministry of Trade and end up providing accounting and auditing services when they do not qualify to register with the ICPAU. These practitioners practice without being regulated by the ICPAU. Some professional accountants with foreign qualifications view the requirement to write the variant examinations in Uganda, that is, tax and business law as unnecessary, and consider the registration with ICPAU to be causing a subscriptions burden.

47. Strengthening practicing firms and ensuring they comply with ISQC 1 should be high on the ICPAU's strategy of achieving high quality financial reporting in Uganda. Results of an assessment of external audit firms carried out by the World Bank in 2012 and the ICPAU's Audit Quality Review Report produced in May 2013 show independent but strikingly similar results. Both reports show significant weaknesses in the firms reviewed/assessed in all the six elements⁴² of quality control under ISQC 1.

IIID Setting Accounting and Auditing Standards

Rigorous standards and codes in accounting and auditing (accepted internationally) constitute one of the factors that underpin high quality financial reporting practices.

48. The Accountants Act 2013 requires the ICPAU to regulate and maintain the standard of accounting in Uganda. The ICPAU is mandated to issue and adopt internationally accepted accounting and auditing standards, promote their use in Uganda and make suitable adaptations⁴³ where necessary. The ICPAU as the regulator of the accountancy profession is mandated to set the standards, monitor and enforce their successful implementation. However, there is widespread reference to generally accepted accounting practice and generally accepted auditing standards in various legislations. Yet such standards do not exist in Uganda. Awareness activities and support for implementation of IFRS for

⁴²These are; Leadership responsibilities, Ethical requirements, Acceptance and continuation of client relationships, Human resources, Engagement performance, and Monitoring including Documentation as a crosscutting element.

⁴³ This is allowed by the Accountants Act 2013.

SMEs and the Guide for Micro-size Entities Applying IFRS for SMEs (both issued by the IASB) need to be stepped up. Market awareness of these two standards is low and yet they apply to a large section of the Ugandan economy.

49. ICPAU announced the adoption of IPSAS and the MoFPED has been involved in activities aimed at implementing IPSAS in the public sector for a number of years. Although the MoFPED is the main promoter of successful implementation, the responsibility is shared with ICPAU as part of its IFAC membership obligations. ICPAU is obliged to use best endeavour to support the successful implementation of the standards. This calls for coordinated collaboration between ICPAU and the MoFPED, with a roadmap drawn clearly setting out the process of migration from the current financial reporting framework, which is modified cash basis (both Government and Local Government are on this framework), to accrual IPSAS.

50. The MoFPED is facing challenges in migrating to accrual IPSAS. These include; (a) prolonged lack of official guidance from the IPSASB on first time application of IPSAS (similar to IASB's IFRS 1- "*First- time Adoption of IFRS*") (b) some concepts embedded in IPSAS that are not consistent with public-sector nature of business e.g. going concern, fair value, etc. (these originate from the fact that IPSAS are derived from the IFRS framework), (c) property, plant and equipment complexities, and others. Consolidation of state enterprises is also viewed as going to present problems given the degree of differences in the types of businesses they conduct and that they are at different stages of finalisation of financial statements in terms of years with completed audits. Consolidation of the three layers of the public sector i.e. central government, state enterprises (some of which will prepare financial statements in terms of IPSAS while others will use IFRS), and local authorities will present its own challenges.

IIIE Ensuring Compliance with Accounting and Auditing Standards

51. All private sector regulators place significant reliance on the work of external auditors (as demonstrated below) in ensuring that the audited financial statements they rely on are prepared and audited in terms of applicable standards. This places a lot of public interest responsibility on the ICPAU to ensure that its members maintain a high level of technical competence and integrity, are adequately regulated and monitored, and where necessary, appropriately sanctioned.

Uganda Registration Services Bureau; The Bureau lacks capacity to follow up on annual returns filing. Therefore, it cannot determine how many of the approximately 176 000 registered companies are operating and are up to date with their annual returns. Companies that are dormant and not submitting annual returns are not being delisted. This facilitates informal trading and loss of tax revenue to the state. The Bureau does not have capacity to check the financial statements of public companies accompanying the annual returns for compliance with applicable financial reporting standards and reporting requirements of the Fifth Schedule of the Companies Act 2013. The Bureau records are not linked with any other regulator. Collaboration with the Uganda Revenue Authority (URA) and Kampala City Council Authority (KCCA) aimed at sharing information, started in 2013 and needs to be further pursued.

The Bank of Uganda regulates banks and MDIs through the Financial Institutions Act 2004. The regulations⁴⁴ of the Act require financial statements to be prepared in compliance with IFRS but there is no mention of the required audit framework. Auditors are selected on a four year rotation period from a pre-qualification list⁴⁵ approved by the Bank and once a firm is selected, the bank further approves the firm before appointment. The BoU relies on the reports of the external auditors for compliance with IFRS. Financial institutions are required to produce abridged quarterly and half⁴⁶ yearly financial statements and audited full financial statements annually. Auditors who fail to comply with BoU requirements may be removed from the list of approved bank auditors. Financial institutions that fail to comply with filing requirements face a penalty of 20 currency units for each day in default.

The Uganda Stock Exchange regulates listed companies. The Stock Exchange Compliance Officers⁴⁷ check if auditors of listed companies are from the pre-qualification list prepared by ICPAU. Their compliance team of four staff (two CPAs, one lawyer and one Certified Financial Analyst) reviews financial statements for compliance with IFRS in terms of presentation and disclosure. However, they still rely on the work of external auditors for most of the compliance standards. Sanctions on companies for non-compliance range from suspension to delisting. One company was suspended for three months for late submission of financial statements.

The Capital Markets Authority (CMA) regulates activities on the capital markets including the Stock Exchange. Although the Authority has its own compliance review officers, in terms of assurance on compliance with applicable financial reporting standards, the Authority relies on the work of external auditors. The CMA and ICPAU have a Memorandum of Understanding of 2013, under which the two entities agreed to co-operate in areas of common interest in financial reporting. The impact of the MoU is still to be realised.

The Insurance Regulatory Authority regulates the insurance industry under the Insurance Act of 1996 and the Amendment Act of 2011. The Authority has four Officers who check compliance by insurance companies with applicable financial reporting requirements. It ensures that auditors of insurance companies are drawn from the preferred list and are rotated on a four year cycle. The Amended Insurance Act 2011 gives the Authority power to sanction insurance companies that fail to comply with reporting requirements. It may also fine management. The sanctions include suspension or revoking the licence. It has reported three cases to ICPAU as a result of its own reviews.

The Private Sector Foundation Uganda (PSFU) is involved in enhancing competitiveness of its members. It links members with donors and Government where necessary and engages in research and capacity building; including up-skilling. These are aimed at improving competitiveness and cost of doing business. However, its activities to date do not address the quality of financial reporting of its members; which should assist in further achieving the objective of competitiveness. It has no links with ICPAU. A lot of its members particularly small, medium and owner managed micro-entities can significantly benefit from setting financial reporting requirements aimed at improving their standard of record keeping and

⁴⁴ Financial Institutions Act Regulations 2010

⁴⁵ ICPAU registered

⁴⁶ Unaudited half yearly financial statements should be displayed in banking halls.

⁴⁷ Comprise 2 qualified professional accountants, a lawyer and a certified financial analyst.

financial reporting. This will help them in accessing finance from financial institutions at low cost with less insistence on collateral, which may otherwise not be available.

The Uganda Communications Commission (UCC) regulates companies in the communications industry. Its members range from very large private corporations with significant public interest (both national and multinational), to small national operators. The Commission does not have its own financial reporting requirements. It simply requires compliance with the Companies Act 2012. The Commission relies on the work of external auditors where there are requirements for audit per the Companies Act 2012. Some of its members engage in the mobile money business which borders on banking activities.

Co-operative Societies are regulated by the department of Co-operatives. The Co-operative Societies Act 112 requires the financial statements to be prepared in terms of Generally Accepted Accounting Procedures and Practices and be audited in terms of Generally Accepted Professional Audit Standards. Where a co-operative fails to produce audited financial statements as required, the registrar shall convene a general meeting and a new committee will be elected. No sanctions are provided for in the law.

52. The ICPAU has a responsibility to increase its collaboration with public sector institutions and enhance its relevance in the sector.

Uganda Revenue Authority would benefit from high quality financial reporting as it collects revenue on behalf of the Government. It currently faces many challenges which include; a large number of unqualified and unregulated accountants preparing financial statements for submission to the Authority, ICPAU members not available in remote areas of the country leading to the Authority accepting financial statements prepared by non-ICPAU members, and loss of experienced staff to the private sector. Many small tax payers are not aware of the existence of financial reporting frameworks that are suitable for SMEs and Micro Entities. The Authority does not check financial statements for compliance with any financial reporting framework. Collaboration with the ICPAU can assist in overcoming some of these challenges. In addition, a policy by MoFPED that ensures medium and large (PIEs) companies use accountants and auditors who are members of ICPAU will improve the quality of information received by URA.

The Office of the Auditor General has responsibility to audit state enterprises, but faces challenges. Some of these audits are contracted out to private firms of auditors but the Auditor General remains the responsible auditor and therefore does the quality assurance of the audit. The office has about 80 qualified accountants out of approximately 300 staff. Many of the employees are currently undertaking professional qualifications (ICPAU, ACCA, etc.) and others are enrolled in various internal training courses relevant to the scope of their work. This effort by the office is very commendable. Depending on the nature of the state enterprises, some are supposed to use IPSAS, while others are supposed to use IFRS, (Government Business Entities). Government departments at the same time are in the process of migrating to the IPSAS. All these issues put a strain on the Office of the Auditor General, auditing financial statements at different stages of migration. The challenge is compounded by the absence of a standard giving guidance on first time adoption of the IPSAS as is the case with IFRS. Currently there is no training in public sector accountancy and auditing at tertiary and professional levels. Graduates join the office with little to no knowledge of public sector accounting and auditing, and most of the much needed training is done on the job.

Collaboration with the ICPAU is necessary to introduce public sector accountancy training and address this gap. It is worth appreciating the effort the office of the Auditor General has undertaken in training staff on the job and assisting them to get trained by external credible institutions.

53. Noncompliance and informal operations are still rife among SMEs and Micro-entities. Engagement of this sector needs to be improved, convincing the operators of the benefits of record keeping and high quality financial reporting. They should also be made aware of the financial reporting frameworks applicable to their size of businesses. The main users of the financial statements of these sectors, i.e. the bankers, micro-entities association, and the Uganda Revenue Authority together with practicing firms⁴⁸ (they stand to benefit from business arising from the sector) should engage in activities aimed at promoting such awareness. At the moment, there is very little incentive for entities in this sector to be transparent in their financial reporting.

IV ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

54. The World Bank ROSC team reviewed 28 audited financial statements and the report of the Auditor general for the year ended June 30, 2012 volume 4- Statutory corporations for compliance with applicable accounting standards. The sector distribution of the reviewed entities is as follows: listed companies-six, commercial banks-seven, state enterprises-six, unlisted large companies-five, insurance companies-one, and credit unions-three. The financial statements are generally difficult to obtain either from the entities themselves or from the regulators. The reviews were offsite and therefore have an inherent limitation in that they concentrated on *form* issues i.e. presentation and disclosure. Assessment of *substance* issues i.e. recognition and measurement would require access to the auditor's working papers and the records of the audited company. The following are some of the many findings of the reviews;

- The financial statements of Savings and Credit Unions are said to be prepared in accordance with "Generally Accepted Accounting Principles". However no such standards are available in Uganda. One of the Auditor's Report states; "*The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the applicable IFRS, GAAP, the Cooperative Societies Regulations, the Bye-laws of the SACCO and the requirements of other relevant laws and regulations*". This is a complex and hybrid financial reporting framework difficult to comply with in practice. A template of standard financial statements of such Unions was prepared and it does not comply with IFRS. This demonstrates a standards gap that needs to be addressed in this sector.
- Because of the absence of legal definitions of PIE and SME, one of the companies reviewed given its quantitative and qualitative characteristics should have reported in terms of IFRS for SMEs instead of IFRS.
- One of the companies which uses the "function of expense"/ "cost of sales" method of classification in its statement of profit or loss disclosed various revenue line items and

⁴⁸ One firm is running 2 programmes; "Top 100 SMEs" and "Forum of Traders" meant to raise awareness in high quality financial reporting in the SME and Micro sectors.

cost of sales components line items in a disorderly manner which did not show total revenue and total cost of sales. Additionally, the entity did not disclose additional information like depreciation, employee benefits, as is required by the standard.

- A number of financial statements of banks had elaborate disclosures in the notes that are not relevant to a bank. One common detailed disclosure is IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” which became effective January 1, 2013. After long detailed narrative taken directly from the IFRIC, the notes go on to state that the IFRIC will not have an impact on the bank’s financial statements. This gives the impression of clutter and “boilerplate” which obscures the usefulness of disclosed notes.
- There was inadequate disclosure of credit risk, liquidity risk and market risk relating to financial instruments in one of the bank financial statements.
- Three financial statements did not disclose the basis of revenue recognition in the accounting policies.
- Quality of disclosure of significant judgements and estimates made by management needed improvement in most financial statements reviewed.
- Related party disclosures and segment information disclosed were generally below that required by the relevant IFRSs.

V AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

55. The assessment of compliance with auditing standards was done at three levels: (a) review of the findings of independent assessments done by the ICPAU’s Quality Assurance team as part of its audit practice reviews and the World Bank’s assessment to identify firms that qualify to audit projects financed by the Bank, (b) World Bank ROSC A&A team assessment, and (c) World Bank A&A team assessment of the annual report of the Auditor General for the year ended June 30, 2012- Volume 4- Statutory Corporations

- (a) The independent reviews by the ICPAU quality assurance team and the World Bank (assessment to identify firms that qualify to audit Bank funded projects) had very similar findings; i.e. that most audit firms in Uganda need to improve compliance with ISQC1.
- (b) &(c) The World Bank ROSC team made the following findings;
 - In two financial statements reviewed, management had notes to the financial statements indicating going concern problems but the auditors did not pick these up in their audit reports as “Emphasis of Matter” to be included after the opinion paragraph.
 - In three instances, the date the financial statements were approved by the directors was not shown, making it not clear whether the financial statements were cleared by the Board before the audit report was signed.
 - One audit report wrongly referred to differences between amounts disclosed in the financial statements and corresponding amounts in the supporting schedules as “limitation of scope”. The same audit report again referred to differences between prior year closing balances and current year opening

balances as “limitation of scope”. It would appear it is more of the auditor failing to apply appropriate audit procedures rather than limitation of scope.

- In one set of financial statements, the auditors wrote in the *notes to the financial statements* (which they are not supposed to prepare); “*We discussed with management and we were informed that there is an understanding between (the entity) and the government for them not to pay such taxes. We were however not availed with copies of such documentation to be able to satisfy ourselves*”. (This documentation is supposed to be in the auditor’s working papers and not in the notes to the financial statements). The auditors have a Certified Public Accountants stamp. This reflects on the quality of some of the auditors in the field.
- Regarding the report of the Auditor General for the year ended June 30, 2013- Volume 4- Statutory Corporations, the Auditor General noted that; “The audits are normally conducted in accordance with International Standards on Auditing (ISA)”- which is not an explicit statement of compliance with ISA.

56. Our reviews indicate that the quality of audits across the board requires improvement, more so for SMPs. Although most audit reports indicate that the audits are conducted in compliance with ISA, the degree of compliance with the standards differs among audit firms of different size.

VI STAKEHOLDER PERCEPTION ON THE QUALITY OF FINANCIAL REPORTING AND THE PROFESSION

57. Financial statements of SMEs and Micro-size Enterprises are viewed by bankers as being of low quality. The bankers’ perception is that they are not prepared using appropriate and consistent accounting policies and are usually intended to reflect pre-determined operating results especially with regards to tax implications. The usefulness of the financial statements from the banker’s point of view is therefore significantly curtailed. The financial statements are not used on their own to make critical lending decisions. They play a supportive and less significant role. More reliance is placed on collateral for lending decisions.

58. The perception of regulators is that the quality of financial reporting for regulated entities is good. Consequently they place reliance on the work of the auditors of such institutions with regards to compliance with applicable standards. Financial statements of non-regulated entities are generally viewed as being not of high quality.

59. Wider stakeholders, including the URA, view the quality of financial reporting in the SME and Micro sectors as requiring significant improvement. Contributing factors include the fact that there are a lot of unqualified and unregulated “accountants” playing significant roles in the preparation and audit of financial statements in these sectors.

60. The quality of processes in the financial reporting supply chain for State Owned Enterprises is viewed as requiring significant improvement as reflected by the audit opinions expressed by the Auditor General.

The summary of audit opinions issued in the period April 1, 2012 to March 31, 2013 is as follows;

| Type of Audit Opinion ⁴⁹ | Number |
|-------------------------------------|------------------------|
| Unqualified | 41 |
| Qualified ⁵⁰ | 25 |
| Disclaimer ⁵¹ | 4 |
| Adverse ⁵² | 0 |
| Total | 70⁵³ |

61. The stakeholders appreciate the good work being done by the Institute. They hold the ICPAU with high regard, and support its growth and business agenda.

VII POLICY RECOMMENDATIONS

These policy recommendations aim to assist in enhancing the financial reporting supply chain in accordance with international standards and good practice, taking into account local circumstances for Uganda. This is only the first step; the major challenge being to transform the recommendations into real and effective reforms that will help enhance the quality of corporate financial reporting in Uganda leading to sustained economic growth for the benefit of the citizens.

VIIA. Strengthening the Statutory Framework

62. The report recommends that PIEs, SMEs and Micro-sized Entities be clearly defined and given legal backing through regulations. Financial reporting requirements should be aligned to the level of public interest responsibilities of the specific entities. The definition of a PIE should cover both qualitative⁵⁴ and quantitative⁵⁵ parameters, broad enough to avoid frequent changes. All PIEs should comply with IFRS while smaller entities apply IFRS for SMEs, and Micro-sized Entities apply the Guide for Micro-sized Entities, as shown in the table below. This will result in a differential financial reporting regime that

⁴⁹Obtained from the report of the Auditor General

⁵⁰This is when: (a) the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial statements; or (b) the auditor is unable to obtain sufficient appropriate evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive

⁵¹This is when the auditor is unable to obtain sufficient appropriate evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. OR in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to potential interaction of uncertainties and their possible cumulative effect on the financial statements.

⁵²When the auditor having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements

⁵³Excluding six audits still in progress at the time of compilation.

⁵⁴ Should include all entities regulated by other regulators and entities where the Government has control.

⁵⁵ These should be set after wide stakeholder (including Government) consultation and may include thresholds on; turnover, assets, borrowings, number of employees

requires entities to report according to a framework commensurate with the entity's size, public interest responsibilities, and other circumstances. Additionally, the statutory financial reporting framework should require financial statements of all companies that are PIEs to be monitored and reviewed by the accountancy profession regulator (ICPAU). These developments will promote higher levels of compliance, leading to improved levels of financial reporting, and a competitive investment climate. To avoid delays caused by processes required for changing the Act, these changes should be brought in through Regulations to the Companies Act 2012.

63. Introduce the concept of audit exemption while requiring all medium to large companies' financial statements to be prepared and audited by a member of ICPAU.

Currently, the Companies Act 2012 requires all companies, irrespective of size or level of public interest to be audited. To ensure small and micro companies with little or no public interest are not burdened with audit requirements which may not be necessary, the requirement for companies to be audited should be linked to size and the level of public interest. ICPAU should use its influence (as mandated by the new Accountants Act 2013 to advise government on financial matters) to require all medium and large companies to have their financial statements prepared and audited by members of ICPAU. ICPAU will need to open dialogue with relevant parties like URA, Ministry of Trade, MoFPED, and URSB.

64. Require all companies registered under the Companies Act 2012 to file financial statements with the Uganda Registration Services Bureau.

Currently, only public companies as defined in the Companies Act 2012 are required to file financial statements with the Bureau.

65. The adopted financial reporting framework for each State Enterprise should be aligned to the nature of its operations.

Those that are involved in profit oriented business activates should be required to comply with IFRS, while those with service oriented not-for-profit operations should apply IPSAS. This can be included in the regulations of the PFA once it is enacted.

66. Consideration should be given to creating a financial reporting law, eg a Financial Reporting Act.

The law will prescribe the financial reporting framework for the different reporting entities; PIEs, SMEs and Micro-entities. This will provide legal mandate for monitoring and enforcement of financial reporting requirements by the accountancy profession regulator. All references to financial reporting requirements in the existing and future laws will refer to this law. It will also contribute in making financial reporting requirements in the country consistent, comprehensive, proportionate and up to date.

Recommended Reporting Frameworks

| Private Sector | | Public Sector | |
|---------------------------------------------------------------------------|-------------------------------|--------------------------------------------|-------------------------------|
| Entity | Accounting/Auditing Framework | Entity | Accounting/Auditing Framework |
| PIEs including large private companies that meet the definition of a PIE. | IFRS/ISA (Mandatory) | State Enterprises that qualify to use IFRS | IFRS/ISA (Mandatory) |

| Private Sector | | Public Sector | |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------|
| Small and Medium Sized Entities | IFRS for SMEs (Mandatory) Audit not mandatory only for small companies with no public interest. (Where required, use IFAC Guide to Use of ISA in the Audit of SMEs) | State enterprises that qualify to use IPSAS, central and local government | IPSAS Auditing Standards (Mandatory) |
| Micro – entities | A Guide for Micro-sized Entities Applying the IFRS for SMEs(2009). Audit not mandatory. | | |

VIIIB. Strengthening Accountancy Education and Training

67. The report recommends that ICPAU collaborate with MoFPED and tertiary education providers to introduce training in Public Sector Subjects. This will fill the current gap in accountancy training and make ICPAU more visible and relevant to the public sector.

68. Further strengthen collaboration between ICPAU, NCHE and tertiary education providers to improve the relevance and quality of accountancy graduates. This should aim at developing relevant syllabi and curriculum, and enable ICPAU in collaboration with the NCHE to monitor training institutions in terms of quality of teaching, quality of lecturers, retention of lecturers, and teaching facilities in the current environment of ever-changing standards. The ICPAU should play a leading role in accrediting all tertiary training institutions that train accountancy students intending to proceed to the ICPAU qualification. Additionally, ICPAU should consider the possibility of establishing a technician program covering both private sector and public sector needs.

69. ICPAU should mandate the requirement for compulsory practical training as part of the qualification process for its membership. This should meet the minimum requirements of IAESB education standards and closely monitored by ICPAU.

70. Consideration should be given to introducing internships as part of degree qualifications in accountancy. This will assist in narrowing the knowledge gap that recent graduates face when entering the work place.

71. ICPAU’s training material project needs support. Funding should be sought for the project and ensure the material is kept up to date and made readily accessible to students.

VIIIC. Strengthening the Accounting and Auditing Profession

72. Further strengthen ICPAU to enable it to meet its wide responsibilities. ICPAU should continue building strong technical capacity to enable it to serve its students members and the wider community in the country. It should also continue to build professional capacity to enable it to fulfil IFAC SMOs, be a centre for technical excellence and a repository of technical material in accounting and auditing, in addition to being the “voice of business” in Uganda. It should have sustainable financial capacity to enable it to fulfil these technical and professional responsibilities.

73. ICPAU should collaborate with other stakeholders to enable it fulfil IFAC statements of membership obligations (Revised). The table below shows the additional work ICPAU has to do to meet the obligations.

Policy recommendations on IFAC SMOs

| SMO | Degree of Responsibility | Policy Recommendation |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SMO 1 <i>Quality Assurance</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing for both adoption and implementation | ICPAU should support its members to comply with the revised ISQC 1. It should; <ul style="list-style-type: none"> ➤ Establish the Quality Assurance Board provided for in the Accountants Act 2013; ensuring the Board includes representatives of various regulators of public interest entities. ➤ Facilitate a workshop for all its practicing members to enlighten them of quality control and SMO 1 requirements and also discuss common findings in past reviews. ➤ Disseminate the “<i>Guide to Quality Control for Small and Medium – Sized Practices</i>”⁵⁶ to benefit small/medium sized practices that have no global networks. |
| SMO 2 <i>International Education Standards for Professional Accountants and other IAESB Guidance</i> | <i>Shared</i> ; with various education and training providers. The ICPAU retains overall obligation of ensuring that the quality of education at all levels is in line with IAESB International Education Standards. As standards setter, ICPAU has direct responsibility for ensuring that IES requirements are appropriately addressed. | ICPAU should; <ul style="list-style-type: none"> ➤ Use best endeavour to improve the quality of education by influencing syllabi, curriculum, and quality of accountancy education and training including CPD. ➤ Accredite all accountancy education providers and effectively monitor and supervise them. ➤ Have an effective Education Committee supported by a strong Technical Department. |
| SMO 3 <i>International Standards, Related Practice Statements, and Other Pronouncements Issued by the IAASB</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing by making ICPAU the standards setter. | ICPAU should; <ul style="list-style-type: none"> ➤ Through an effective Committee, adopt, support, and monitor successful implementation of Clarified ISA on an ongoing basis. ➤ It should also disseminate the “<i>Guide to Using International Standards on Auditing in the Audit of Small and Medium-Sized Entities</i>”⁵⁷ and other IFAC |

⁵⁶ Prepared by the Small and Medium Practices Committee of IFAC. Although it is non- authoritative guidance on ISQC1, it supports implementation of the standard by explaining and illustrating the steps and procedures necessary to comply with ISQC 1.

⁵⁷ Prepared by the Small and Medium Practices Committee of IFAC

| | | |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | publications like “ <i>Companion Guide</i> ” and “ <i>Tips for Cost-Effective ISA Application</i> ” |
| SMO 4 <i>IESBA Code of Ethics for Professional Accountants</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing by making ICPAU standards setter. | ICPAU should ensure that the Accountants Act Regulations prescribe the IESBA Code of Ethics for Professional Accountants or a Code that is not less stringent than the IESBA Code. |
| SMO 5 <i>International Public Sector Accounting Standards and Other IPSASB Guidance</i> | <i>Shared</i> ; with the Accountant General in the MoFPED for implementation. The Accountants Act 2013 makes ICPAU the standard –setter, giving the ICPAU direct responsibility for adoption. | ICPAU should; <ul style="list-style-type: none"> ➤ Influence syllabi and curriculum development at tertiary institutions to include public sector accounting ➤ Consider including a public sector accounting variant papers in its professional examinations ➤ Strengthen the Public Sector Sub-committee to spearhead the IPSAS implementation support initiatives. ➤ Assist the MoFPED to successfully migrate to accruals IPSAS and improve accountability and the quality of financial reporting in the public sector. |
| SMO 6 <i>Investigation and Discipline</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing | ICPAU should raise public awareness of its disciplinary powers and encourage cases requiring disciplinary action to be raised with the Institute. |
| SMO 7 <i>International Financial Reporting Standards</i> | <i>Direct</i> ; The Accountants Act 2013 gives the necessary legal backing by making ICPAU the standard setter | ICPAU should further strengthen its technical department to enable it to effectively support successful implementation of the 3 levels of financial reporting standards frameworks. <ul style="list-style-type: none"> ➤ Particular emphasis should be given to building awareness of the IFRS for SMEs and the Guide to Micro-size Enterprises Applying the IFRS for SMEs which are very important for the Uganda business community and the Revenue Authority. |

74. ICPAU should ensure its members maintain a very high level of professional competence, integrity, ethical behaviour, and regard for quality in whatever they do. ICPAU should ensure its quality assurance reviews and CPD achieve the intended objectives of enhancing quality and technical competence. This is because of the level of reliance all regulators place on the work of external auditors. Significant public trust in financial reporting is placed on the Institute and its members.

75. Stakeholders should make a sovereign decision on how the accountancy profession should be regulated in Uganda. The overriding objective to be kept in mind is the need to ensure independence of the regulator and protection of the public interest. If the ICPAU continues to be the regulator, (which is the view of the majority of the stakeholders, who feel

that this arrangement should be given a chance) the Quality Assurance Board should be appropriately constituted to ensure that it is truly independent and be seen to be so. If this option is adopted, the stakeholders should have a timeframe say three years after which a review would be done, benchmarking actual performance against pre-set objectives. Additionally, the Quality Assurance Board will have to attend to the perception of the “Big 4” that the ICPAU reviews need significant improvement if they are to add value to their practices. This will be one of the major issues to be addressed during the timeframe to be set by stakeholders referred to above. ICPAU will have to set out clearly how it is going to address this issue. It should also be appreciated that ICPAU is a professional accountancy body and the oversight it provides on the accountancy profession may not be viewed as that provided by an independent oversight body. If it is decided to set up a separate independent oversight body, it will need to be set up by the law and aim to be a member of the International Forum of Independent Audit Regulators in order to benefit from international collaboration on issues regarding audit regulation. The independent body will initially be funded by the government and gradually, as it gains market acceptance, entity beneficiaries of audit services will be brought in to contribute to funding the organisation. There are different mechanisms that can be considered to achieve this. The separate independent body will also ideally assume the role of standard setter, a function currently performed by the ICPAU.

76. ICPAU as adviser to the Government should engage the MoFPED and the Ministry of Trade with regards to accountancy practitioners licences. ICPAU should be the only authority with the legal mandate to issue practicing licences to accountants and auditors in the country.

77. ICPAU should adopt the IESBACode of Ethics for Professional Accountants. This should be done through the regulations of the Accountants Act 2013, as provided for in the Act.

VIID. Improving Compliance with Financial Reporting Requirements and Monitoring

78. ICPAU should continue leading the current initiatives aimed at improving awareness of new standards, and changes in existing standards and their implementation (including the various SMP Tool Kits published by the IFAC SMP Committee). This will assist particularly SMPs, SMEs, Micro-size Entities, and accountants in business to better comply with standards and improve compliance leading to improved financial reporting.

79. All regulators should be further strengthened to improve their capacity to identify non-compliance with financial reporting requirements. They should enter into memorandum of understanding with ICPAU covering all areas of common interest in financial reporting. These should cover responsibility with regards to compliance with the statutory reporting requirements and international standards and codes. The reliance regulators are currently placing on the work done by the members of ICPAU is not formalised. The regulators should also have some in-house capacity to be able to check for compliance with financial reporting requirements at presentation and disclosure level.

80. Strengthen the Uganda Registration Services Bureau. It should have capacity to identify and follow up on companies that have not filed annual returns. It should also check

filed financial statements for compliance with the Companies Act disclosure requirements. The Bureau should also be linked to other national institutions like the URA, and the KCCA to enable efficient sharing of information.

81. ICPAU should continue collaborating with MoFPED to successfully implement IPSAS. This support should include influencing syllabi and curriculum at accountancy training institutions that ICPAU collaborates with to train public sector accounting students. The Institute should also collaborate with MoFPED to formally adopt the IPSAS through regulations to statute.