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REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

REPUBLIC OF UGANDA

ACCOUNTING AND AUDITING

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Contents

PREFACE

In the wake of the international financial crisis of the 1990s, initiatives worldwide were set in place to strengthen the international financial architecture in crisis prevention, mitigation, and resolution. The agenda focused on weaknesses in the international financial systems that potentially contribute to the propensity for and magnitude of global financial instability, hence requiring collective action at the international level. In this regard, the international community emphasized the role of minimum standards and codes in strengthening the international financial architecture.

There was widespread recognition that global financial stability rests on robust national systems and, hence, requires enhanced measures at the country level. In a world of integrated capital markets, financial crises in individual countries can imperil international financial stability. This provides a basic "public goods" rationale for minimum standards, which benefit international and individual national systems. In this context, the World Bank and the International Monetary Fund (IMF) initiated the Reports on the Observance of Standards and Codes (ROSC), which cover twelve internationally recognized core standards and codes relevant to economic stability and private and financial sector development. This Uganda reports focuses on one of these twelve, accounting and auditing of financial reporting by public interest entities.

Based on the recommendations of the review in Uganda, country stakeholders and World Bank staff look forward to working together with the Government of Uganda in developing a country action plan to strengthen Uganda's corporate financial reporting regime. The assistance rendered by the Uganda authorities and country stakeholders during the review is sincerely appreciated.

The report, prepared by a team from the World Bank, is based on a diagnostic review carried out in Uganda during November 2004. The review was conducted through a participatory process involving various stakeholders and led by the country authorities. The team comprised M. Zubaidur Rahman (OPCFM), Marius Koen (AFTFM), Patrick Piker Umah Tete (AFTFM), Marianne Brown (international consultant) and Joseph Balikuddembe (local consultant). Anthony Hegarty, Manager, Financial Management, Africa Region, and staff of the FM Anchor ensured that appropriate arrangements for quality assurance were in place. The peer reviewers comprised Edward Olowo-Okere (AFTFM), Hisham Ahmed Waly (MNACS), and Lance Morrell (AFTU1).

EXECUTIVE SUMMARY

This report provides an assessment of accounting and auditing practices within the context of the Uganda institutional framework to ensure the quality of corporate financial reporting. The accountancy profession in Uganda is young, but growing rapidly. The accounting and auditing practices in Uganda suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules. Various weaknesses were identified in the laws and regulations governing financial reporting. The Accountants Act (1992) has constrained the development of an enabling environment for strong accounting practices. The proposed Accountants Bill (2004) presents some improvements but still has shortcomings. The Companies Act (1961) is in need of updating, while the Financial Institutions Act (2004) has significantly improved the regulatory environment for financial reporting by banks and non-banking financial institutions. National ethical requirements for auditors are not up to date with international developments. A majority of members of the Institute of Certified Public Accountants of Uganda hold foreign accountancy qualifications and are therefore obliged to comply with ethical codes of the foreign accountancy bodies.

Adopting International Accounting Standards (IAS) and International Standards on Auditing (ISA) in 1998 was a positive development. However, full compliance with IAS (and subsequently International Financial Reporting Standards) is not yet readily achieved, and there is inadequate adherence to auditing standards and professional ethics. Apart from the financial institutions and listed companies, monitoring and enforcement mechanisms are ineffective. These factors, as well as inadequate accounting education at university level, lack of learning materials on the international standards, and a lack of monitored and controlled practical training, have contributed to weaknesses in the financial reporting and auditing regime.

The policy recommendations in this report focus on improving the statutory framework, strengthening enforcement mechanisms, upgrading professional education and training, and enhancing capacity of regulatory and professional bodies. A major recommendation is the establishment of an independent oversight body. This is in line with the global trend toward accountancy bodies being more open in their governance and regulatory processes and for more independent oversight or regulation in areas of public interest. The oversight body will be responsible for adoption, monitoring, and enforcement of IFRS/IAS-based and ISA-based accounting and auditing practices of public interest entities. In addition stakeholders should agree on criteria to clarify which entities should be eligible to use the standards for small- and medium-size enterprises, when available from the International Accounting Standards Board.

I. INTRODUCTION AND BACKGROUND

1. This report is based on a review of strengths and weaknesses of corporate accounting and auditing practices in Uganda. It forms a part of the World Bank and the International Monetary Fund (IMF) joint initiative on Reports on the Observance of Standards and Codes (ROSC). An overview of the ROSC Accounting and Auditing program and a detailed presentation of the methodology are available on the World Bank Group website.

2. The review involved an assessment of the strengths and weaknesses of existing institutional frameworks that underpin financial accounting and auditing practices, the actual practices, and an analysis of the effectiveness of monitoring and enforcement mechanisms. International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS)[1] and International Standards on Auditing (ISA) served as benchmarks for evaluating international comparability of locally applicable accounting and auditing requirements. The review used a diagnostic template developed by the World Bank to facilitate collection of data. The data was complemented by the findings of a due diligence exercise based on a series of meetings with key stakeholders conducted by World Bank staff. The intended audience of this report includes national and international market participants who have an interest in the corporate financial reporting regime of Uganda. The policy recommendations of this report are expected to provide inputs for developing and implementing a comprehensive action plan for strengthening institutional capacity to support high-quality corporate financial reporting

3. Uganda, a medium-sized country in East Africa, has a population of 26 million and land area of 240,000 square kilometers. The gross domestic product (GDP) per capita is low (US$240),[2] the average life expectancy is 43 years, and the literacy rate is 62 percent. Inflation was low at 5.7 percent at the end of October 2004 (compared to 5.9 percent at the end of 2003).

4. The Ugandan economy has traditionally depended on primary production and exports. Coffee and fisheries account for over 30 percent of the total export revenue. The agricultural sector remains the dominant sector employing about 75 percent of the labor force and accounting for nearly 40 percent of the total GDP. The Uganda Stock Exchange (USE) commenced operations in 1998; 6 companies are listed (of which 2 are cross listed on the Nairobi Stock Exchange) with a market capitalization of US$818.297 million.[3] There are 15 commercial banks; 2 development banks; 7 credit institutions; and over 500 micro-finance institutions operating in the banking system, with commercial banking

[1] Within this report, IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC). IASC-issued standards are known as International Accounting Standards (IAS).

[2] US$ values based on rate applicable at 31 October 2004 [Uganda Shillings (UGX) 1,727= US$1].

[3] Value as of October 28, 2004.

assets totaling US$1.732 billion.[4] There are 19 insurance companies (5 composite and 14 general) with total earned insurance premiums of US$20.339 million.[5]

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

5. **The outdated Companies Act provides basic requirements for accounting and reporting applicable to all private and public companies in Uganda.** The Companies Act, Cap 110 (1961) has not been significantly amended since its promulgation over 44 years ago. The format for presentation of financial statements and disclosures prescribed in the Act need updating or removing.[6] The Act does not deal with preparing financial statements in accordance with identified standards. Moreover, some accounting requirements prescribed by the Act are incompatible with IFRS/IAS.[7] The Act requires public companies[8] to file annual returns with the Registrar of Companies, including a balance sheet, profit and loss account, group accounts and auditor's report. The Companies Act is under review, which offers an opportunity to re-examine financial reporting and auditing requirements.

6. **The Uganda Securities Exchange is the main regulator of the financial reporting practices of listed companies**. The Capital Markets Authority (CMA) regulates the securities market under the Securities and Capital Markets Authority Act (1996) and related regulations on such matters as prospectus requirements, establishing stock exchanges, conducting business, advertising, and licensing of market operators. The CMA reviews a company prospectus before approval of its listing, and the USE regulates financial reporting practices of listed companies on a continuous basis under the Uganda Securities Exchange Limited Rules (2003) and the Uganda Securities Exchange Listings Rules (2003). The USE Listings Rules require preparation of annual financial statements in accordance with applicable national laws and in accordance with IFRS/IAS, unless otherwise allowed by the listing committee.[9] Annual audited financial statements should be submitted to the Exchange within 4 months after year-end and published in newspapers 21 days before the annual general meeting. Interim reports should be published in newspapers within 9 months after the start of the financial year.

7. **The Bank of Uganda (BOU) regulates financial reporting by banks and non-banking financial institutions.** The BOU is empowered to regulate banks under the

[4] Value as of December 2003 .
[5] Value as of December 2003 .
[6] For example, the Act does not mention the preparation of a cash flow statement or statement of changes in equity as part of the financial statements; reference is made to a profit and loss account instead of an income statement.
[7] For example, contrary to IAS, the Companies Act allows reserve accounting for future costs (e.g., asset renewal reserve may be utilized to offset cost of replacement of assets), allows items to be recognized as assets but which do not meet the definition of an asset, allows charging the costs of an investment directly to revenue, under certain circumstances directors need not to deal with subsidiaries in group accounts, the definition of a subsidiary does not align with IAS definition, and alternative formats of consolidated group accounts are allowed.
[8] Company statistics are unreliable; neglecting to take into account statistics on the number of inactive companies. As of October 2003, there were 120,991 registered companies in Uganda, including 119,756 private, 442 public and 793 foreign companies.
[9] The reason for allowing for discretion in the application of accounting standards is to facilitate the preparation of financial statements of companies with dual listings on other stock exchanges. This provision has not yet been applied in practice.

Financial Institutions Act (2004) and financial reporting by nonbanking financial institutions under the Micro-Finance Deposit Taking Institutions Act (2003). Both acts require compliance with IFRS/IAS in preparation of "financial ledgers and records,"[10] and specify certain financial statements disclosure requirements (such as insider loans). The form and content of annual financial statements of banks should comply with requirements of central bank regulations, although the Minister of Finance has not yet published these. The Banks and Micro-Finance Deposit Taking institutions must submit audited financial statements to the Bank of Uganda within 3 and 4 months of year-end, respectively, and publish results in newspapers within 4 months of year-end. Bank auditors are required to give an opinion in accordance with the ISA. Both acts provide for the appointment of suitably qualified and experienced internal auditors.

8. **The Insurance Act Cap 213 (1996) and Insurance Regulations (2002) does not facilitate compliance with international accounting and auditing standards by insurance companies.** The Uganda Insurance Commission regulates financial reporting practices by insurance companies. There is no requirement for IFRS/IAS compliance in the Insurance Act, Cap 213 (1996); and Insurance Regulations (2002). Certain requirements of the Insurance Act are not in line with IFRS/IAS and ISA;[11] consequently two sets of financial statements are prepared (for regulatory and external general purposes). The financial statements that should be submitted to the Commission within 120 days of year-end must comply with the format prescribed in the Regulations. The Regulations require that an insurance company employ a full-time accountant possessing professional qualifications recognized by the Institute of Certified Public Accountants of Uganda (ICPAU).

9. **The CMA will regulate financial reporting of collective investment schemes.** Under the Collective Investment Schemes Act (2003) and related regulations financial statements should be prepared in accordance with IFRS/IAS, disclosing reasons for noncompliance. Regulations specify the content of the audit report; audited financial statements are to be submitted to the CMA within 90 days of year-end. The law has not been tested in practice since collective investment schemes are not yet trading.

10. **Financial reporting requirements related to public enterprises are provided for in the Public Finance and Accountability Act (2003).**[12] The Parastatal Monitoring Unit (PMU) in the Ministry of Finance, Planning and Economic Development exercises a strategic economic monitoring role over parastatals. The overarching law covering public enterprises[13] in Uganda is the Public Enterprises Reform and Divestiture Act, Cap 98

[10] Rather than "financial statements," the Financial Institutions Act refers to "financial ledgers and records," and the Micro-Finance Deposit Taking Institutions Act refers to "books of accounts, vouchers, securities, records, computer systems, and other financial and non-financial records." IFRS/IAS are applied when preparing financial statements, and are not meant for bookkeeping purposes.

[11] The format of the prescribed audit report differs from ISA. Accounting and disclosure rules are not consistent with IFRS/IAS (e.g., no statement of changes in equity; and the valuation methods for computers, equipment, office machinery, furniture, and motor vehicles differs from the criteria in IAS 16). Furthermore, the measurement of insurance provisions (reserves) contradicts the requirements of IFRS 4 on Insurance contracts, which require an entity to test the adequacy of its insurance liabilities based on current estimates of future cash flows.

[12] Also refer to *Republic of Uganda, Country Financial Accountability Assessment (CFAA)*, World Bank, May 2004.

[13] There are five broad types of public sector enterprises: (a) government is required to be the sole owner (mostly regulatory agencies), (b) government maintains controlling interest (12 entities), (c) government is minority shareholder (no entities), (d) entities in which the government is required to fully divest (approximately 80 enterprises), and (e) entities which the government should liquidate.

(1993). However, financial reporting requirements are contained in the Public Finance and Accountability Act (2003), which supercedes previous legislation on reporting matters.[14] This 2003 law requires preparing annual financial statements in accordance with generally accepted accounting practice (gaap) and instructions approved by the Accountant-General, and disclosing reasons for departures from gaap as recognized by the accounting profession in Uganda. In the absence of an authoritative clarification of what is meant by "generally accepted," different preparers and auditors of financial statements use their own judgment in deciding the applicable standards. Audited financial statements should be published within 4 months after year-end, unless extended by resolution of Parliament. To perform audits of public enterprises, the Auditor-General assigns external auditors from private independent firms to carry out the audit on the Auditor-General's behalf.

11. **Private pension funds are not regulated.** There is no law or regulatory body monitoring financial reporting by private pension schemes.

12. **Not all regulators have a statutorily mandated role in the appointment and termination of auditors in regulated industries**. Regulators' approval of the appointment and termination of auditors in regulated industries helps to assure the capacity and independence of the auditor and to deter frivolous reasons for an auditor's removal. The Bank of Uganda approves the appointment of the external auditors (the audit firm rather than individual partners) of banks and micro-finance deposit taking institutions in the respective Financial Institutions Act (2004) and the Micro-Finance Deposit Taking Institutions Act (2003); and BOU has the right to revoke an auditor appointment.[15] The Uganda Insurance Commission maintains a list of approved auditors from which this sector's auditors must be appointed; however it has no statutory mandate for terminating the appointment of auditors. The CMA and USE has no statutory mandate for involvement in appointing or terminating auditors of listed companies, yet the CMA approves the auditor of collective investment schemes. A listed company is however required to release within 24 hours an announcement of an auditor's termination. Rotation of audit firms is required only for auditors of banks (to rotate after every 4 years), micro-finance deposit taking institutions (3 years), and collective investment schemes (4 years). No legislation deals with joint audits.

13. **The role of financial statements in tax collection is minimal.** There is no legal requirement to submit a complete set of financial statements to the Uganda Revenue Authority; only a statement of asset and liabilities and a profit and loss account is required. There is no accounting standards compliance specified for preparing financial statements; nor are there any requirements for the auditing of financial statements by licensed auditors. Introducing requirements for higher-quality financial statements would facilitate improved performance in domestic revenue collection. Differentiation between the submission requirements between categories of entities would accommodate small enterprises' financial reporting.

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[14] Legislation superceded includes enabling legislation establishing the enterprise, Companies Act, and Public Enterprises Reform and Divestiture Act (1993).

[15] The BOU maintains a list of auditors qualified to audit banks. Currently only the big 4 international accounting firm networks are included in this list. Banks are required to nominate an auditor for appointment from this list. The BOU's formal selection process is based on an assessment of the firm's capacity and experience. In addition to being a member of the ICPAU, further independence and professional indemnity requirements have to be met.

B. The Profession

14. **The accountancy profession in Uganda is young but growing rapidly.** The country's past turbulent history characterized by civil wars constrained development of the profession. The profession grew from less than 20 qualified accountants in 1990 to approximately 1,000 qualified accountants at present: About 80 percent qualified in the past 5 years. An estimated 6,000 to 7,000 students are presently studying toward professional accounting qualification. Observations suggest that this growth might not continue mainly because in practice most companies cannot afford the cost of qualified accountants and very few companies appoint auditors. There are no current statistics on the demand for professional accountants.[16]

15. **The Institute of Certified Public Accountants of Uganda regulates the accountancy profession.** Established by the Accountants Act, Cap 266 (1992), the ICPAU is in essence a self-regulatory body governed by a Council composed of 11 members, of which 3 are *ex officio* (Auditor-General, Commissioner-Treasury Officer of Account, and the Commissioner of Education) and 8 are elected by the ICPAU.[17] The ICPAU members elect the president. The ICPAU acts as both an examining body for certifying public accountant and the licensing authority for members engaged in public auditing practice. Its members and associate members are recognized under the Companies Act as sole auditors of company accounts. The ICPAU is a member of the International Federation of Accountants (IFAC) and the Eastern Central and Southern African Federation of Accountants (ECSAFA).[18]

16. **Nearly all ICPAU members hold foreign accountancy qualifications.** The ICPAU membership is obtained either by being a member of a recognized professional body or by following the national accountancy qualification route. The ICPAU recognizes approximately 15 foreign professional accountancy qualifications for membership without requiring further examination or experience.[19] At present nearly all members of the ICPAU hold recognized foreign accountancy qualifications, of which about 80 percent are qualified under the Association of Chartered Certified Accountants (ACCA). Although the ICPAU has reciprocity arrangements with the Institute of Certified Public Accountants in Kenya and the National Board of Accountants and Auditors in Tanzania, in practice this is not working. It is not yet known if the new ICPAU qualification—Certified Public Accountants of Uganda [CPA (U)]—will obtain reciprocal recognition in other countries. Reciprocity arrangements with other countries and international accountancy associations would enhance the recognition of ICPAU qualifications.

[16] It was not possible to reliably estimate the demand for professional accountants and auditors in Uganda, reasons included unreliable statistics on the number of companies, small companies not preparing statutory accounts nor appointing auditors, and uncertainty about the number of unregistered auditors practicing in Uganda. A formal study, also factoring in the accounting needs of the smaller companies, would be helpful.

[17] It is a further requirement that 5 of the 8 elected members are practicing accountants.

[18] ECSAFA is a subregional group made up of professional accountants from Botswana, Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Namibia, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Its objectives include co-ordinating development of the accountancy profession and the promotion of internationally recognized standards of professional competence and conduct within the region

[19] To mitigate the risk that auditors are not aware of local legislation, including tax laws, a candidate should be required to pass examinations in local tax and corporate law before being accepted as member of the ICPAU.

17. **The ICPAU and the ACCA serve the same constituency.** The ACCA in Uganda includes 588 members and 206 affiliates for a total of 794. By November 2004, the ICPAU membership stood at 453, with only 105 in public practice. In order to practice in Uganda, ACCA members are required to be members of the ICPAU. Nearly 80 percent of ICPAU members are also ACCA members. The ICPAU is responsible for licensing auditors and monitoring and regulating all accountants in Uganda, while ACCA only monitors activities of its members. The draft Companies Bill proposes that members of recognized accountancy bodies, such as ACCA, be licensed to practice as an auditor without being an ICPAU member. This is however in conflict with the requirement in the proposed Accountants Bill, which requires that only persons enrolled and registered in compliance with requirements under the proposed bill apply for a certificate of practice. This bill prohibits from practice any person without a valid practicing certificate or practicing license and furthermore provides for fines or imprisonment for such infractions.

18. **The Accountants Act (1992) has constrained the development of an enabling environment for strong accounting practices.** Since its establishment, the ICPAU has been embroiled in a legal wrangle regarding the list of international accountancy bodies whose members may be admitted as full members.[20] This dispute has had a damaging effect on the ICPAU's capacity to discharge its mandate, thus constraining the regulatory activities by allowing some accountants to practice without supervision. Under the current law, practicing as an accountant without a practicing certificate is prohibited, but not penalized. Current legislation also entitles all ICPAU members to a certificate of practice, irrespective of relevant experience. Furthermore, the Act deals with certain operational issues that are best provided for in regulations to facilitate easy and timely amendment.[21] The Accountants Act (1992) has been under review for about 3 years and is being revised under a new Accountants Bill (2004), which clarifies the issue of ICPAU membership, limits the associate members who can be granted a license of practice,[22] and changes the Registrar of Accountants from the Auditor-General to the Secretary of the ICPAU. The draft Bill gives the Council authority to amend the regulations with the approval of the Minister of Finance. There are still some shortcomings: it effectively proposes that the profession regulates itself, and it lacks full transparency in composition of its disciplinary committee and disciplinary processes.

19. **The professional accountants' Code of Conduct needs updating.** The Accountants Act (1992) contains a Code of Conduct that sets out certain prohibited conduct. In 1997, the ICPAU issued a Code of Ethics to explain and expand on those provisions. In addition, members with foreign accountancy qualifications are expected to comply with the code of ethics of their respective professional bodies. The ICPAU Code does not incorporate recent changes made to the IFAC Code of Ethics for Professional Accountants; which has been revised several times since 1997. To bring it in line with IFAC, the ICPAU Code needs updating in areas such as the fundamental principles of confidentiality and technical standards; the concept of assurance engagements; and

[20] As set out in the Fifth schedule to the Accountants Act (1992).
[21] For example, recognition of foreign qualifications, disciplinary procedures, and professional code of ethics.
[22] Associate membership is granted to persons without a professional accounting qualification but who have international qualifications, such as the Institute of Chartered Secretaries and Administrators and the Institute of Chartered Managers and Administrators, and were in public practice in 1992 when the Act was enacted.

auditor's independence.[23] Other areas needing review are application of principles to specific situations; guidance on issues, such as tax practices; cross-border activities; and responsibilities regarding the use of non-accountants.

20. **Uganda has not yet experienced litigation against auditors**. There are no reported cases of litigation against auditors and audit firms. Professional indemnity insurance is not compulsory, apart from auditors of banks, micro-finance deposit taking institutions, insurance companies, and collective investment schemes. Partners in firms are jointly and severally liable under common law principles.

C. Professional Education and Training

21. **Professional education is not yet adequate.** The ICPAU-prescribed curriculum for educating and training of professional accountants was developed in accordance with IFAC guidelines in collaboration with the Institute of Chartered Accountants in Scotland in 1997. However, it does not fully meet the IFAC International Education Standards.[24] A proposed revised curriculum to incorporate requirements of IFAC International Educational Standards will become effective in 2006. The quality of the prequalification accounting courses varies across tertiary institutions. Some accounting educators, especially at private universities and colleges, lack adequate knowledge and experience to teach either the theoretical or practical aspects of IFRS/IAS and ISA. The lack of reference material and large numbers of student strain the quality at the government-subsidized university. The IFRS/IAS and ISA learning materials are very expensive and are not easily available to students in the ICPAU program, contributing to low passing rates in the ICPAU exam. The ACCA students have ready access to learning materials, contributing to the high pass rate.

22. **To obtain the Uganda national accountancy qualification, candidates must have passed the ICPAU examination and obtained practical experience.** Candidates may take the ICPAU examination if they possess the Uganda Advanced Certificate of Education with specified minimum requirements. Certificate requirements are slightly higher than IFAC minimum entry requirements.[25] Without a Certificate, a candidate may take an alternative route if they possess a university degree[26] or diploma,[27] or have

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[23] The ICPAU Code does not adopt a conceptual approach to independence. Although threats to independence are provided, safeguards capable of eliminating these threats or reducing them to an acceptable level are not stated as under the IFAC Code. Other areas lacking guidance are long association of senior personnel with assurance clients, audit clients that are listed entities, and provision of nonassurance services to assurance clients.

[24] Certain subjects are not taught separately as required by IFAC International Educational Guideline (IEG) 9. IFAC Educational Standards have been issued in October 2003 to replace the IEG 9 by January 2005. They require the following components to be taught separately: Professional values and ethics, Corporate Governance, Business ethics, Financial markets, Quantitative methods, Organisational behaviour, Marketing, International Business and Globalisation, which are not the case in the current ICPAU curriculum.

[25] IFAC's minimum entry requirements are at least equivalent to minimum university entry requirements. ICPAU requires the Uganda Advanced Certificate of Education (A level) with at least two principal passes of grade D and the Uganda Certificate of Education (O level) with 5 credits, including mathematics and English. These minimum requirements are slightly higher than the Ugandan minimum university entry requirement of two principal passes of grade E.

[26] Major undergraduate accounting courses include 3-year degree programs (bachelors in commerce, business administration, or business studies) awarded by various universities in the country.

[27] The 2-year Uganda Diploma in Business Studies is administered by Makerere University Business School, but tudoring in preparation for a diploma is provided in the national colleges of commerce and by some private colleges throughout the country.

passed the ICPAU accounting technician exam. To be licensed as a Certified Public Accountant (Uganda), a candidate should complete 3-years experience during their professional education, or thereafter in any accounting discipline (tax, audit or commerce). Annual renewal of practicing certificates is linked to payment of membership fees. The ICPAU certification program started in 1997. Between 1997 and 1999, 243 students were enrolled and expected to have completed all certification requirements by June 2004. Eleven out of the 243 students passed the national ICPAU exams and only 2 have been admitted to ICPAU membership.

23. **Monitoring and control of the practical experience requirement is nonexistent.** Without a legal mandate, there is no formal requirement to obtain practical *auditing* experience before being licensed to practice as an auditor.[28] The ICPAU has no mechanism to screen practical training providers on their suitability to provide appropriate experience and does not monitor the quality of practical training.

24. **Continuing professional development in Uganda is not compulsory yet and not monitored**. In line with the IFAC requirement that its member bodies make continuing professional development compulsory, the ICPAU has required all members to obtain 40 hours of professional development per year since January 2005.[29] There is no guidance yet on the scope of structured and unstructured learning activities, verification methods are unclear (a database will be built up over first 3 years), and no sanctions are available or enforced if there is failure to meet these requirements. Although regularly presented, ICPAU seminars on continuing professional development are cost restrictive, making participation difficult for some small firms. Also, the seminars take place primarily in Kampala, leaving upcountry members without easy access. The ACCA presents 3 continuing professional development forums per annum at a nominal fee.

D. Setting Accounting and Auditing Standards

25. **The ICPAU prescribes IFRS/IAS, however, there is no clear legal backing for these standards except for banks, listed companies, and collective investment schemes**. The Accountants Act, Cap 266 (1992) empowers the ICPAU to regulate and maintain the country's standards of accountancy, and it is a legal function of the ICPAU Council to promote the usage of internationally accepted accounting and related standards in Uganda. However, apart from legislation applicable to banks, listed companies, and collective investment schemes, no legislation specifies which entities must comply with the standards set by the ICPAU. Furthermore, in practice the ICPAU has not clearly directed which entities should comply with the standards prescribed by them. Other laws specify particular accounting requirements that do not align with ICPAU-prescribed standards (refer to paragraph 33). The ICPAU adopted IAS in effect January 1998; this position was communicated via a press release and in writing to selected companies and organizations. Additionally, it has developed one local accounting standard dealing with

[28] By law a practice certificate has to be issued to every full member of the ICPAU who applies for such certificate.
[29] IFAC IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, was issued in May 2004. ICPAU should ensure that this standard is considered in planning its role in continuing professional development; for example, IES 7 provides for measurement of completion of continuing professional development to be achieved by three different approaches.

value added tax. No practical implementation guidelines have been issued for any accounting standards.

26. **The ICPAU prescribes ISA, however there is no clear legal backing for these standards except for auditors of banks under the Financial Institutions Act (2004).** The ICPAU Council adopted ISA in 1998; this position was verbally communicated at ICPAU seminars although no effective date has been documented. Compliance with ISA is generally believed to be mandatory for all ICPAU members and associates, a mandate derived from the Accountants Act (1992). However, there is no clear supporting documentation to this effect. No practical implementation guidelines have been issued.

E. Ensuring Compliance with Accounting and Auditing Standards

27. **No effective mechanism exists to enforce requirements for accounting and financial reporting in the Companies Act (1961).** The Registrar of Companies has legal authority to enforce provisions of the Companies Act, however, weak and outdated legal sanctions are available.[30] The Registrar has no technical and logistical capacity for reviewing financial statements in order to identify accounting and auditing violations. There is no reliable database system in place to facilitate enforcement of timely filing of returns and annual financial statements,[31] and the financial statements of nonlisted public companies are not readily available. It may be beneficial to reconcile databases of the Uganda Revenue Authority and the Registrar of Companies. The Uganda Registration Services Bureau Act, Cap 210 (1998) provided for a new parastatal to be set up to embrace the functions of the Registrar of Companies. A board of directors was appointed in August 2004, but it is not yet operational due to a lack of funding.

28. **The Capital Markets Authority relies on the Uganda Securities Exchange to monitor listed companies' compliance with financial reporting requirements.** On an ongoing basis, both the CMA and the USE monitor brokers/dealers and investment advisors. On an ongoing basis, the USE monitors timely submission of financial statements and compliance with disclosure requirements by listed companies. The USE Legal and Surveillance Department lacks financial reporting skills, however, the Accountant and Chief Executive Officer of USE assist with monitoring compliance with financial reporting requirements. The arrangement is adequate for the size of the young stock exchange (6 companies listed since its inception in 2001) but may not be appropriate when the capital market expands. Reliance is placed on the big 4 international accounting firm networks that audit all listed companies. Available sanctions include written warnings, suspension, and termination of a listing; although to date there has not been a need to apply any such sanctions. No specific monetary penalties or criminal offences have been legislated for noncompliance with financial reporting requirements. There is a spirit of co-operation between the USE and its members; one company restated its employee benefit obligations on request of the USE.

[30] For example, there is a small fine for acting as an auditor without qualifications to do so. The average fine for offences is UGX4,000 (approximately US$3). The Companies Act requires the Director of Public Prosecution to apply a lengthy court process to secure a conviction for an offence before a fine is imposed, a process which discourages enforcement.

[31] The recent donor-funded project to assist in establishing a database at the Registrar of Companies has been ineffective; local staff were not skilled to take over the project.

29. **The Bank of Uganda monitors compliance and enforces sanctions with respect to financial reporting requirements related to banks and nonbanking financial institutions.** The over 500 micro-finance institutions, which are not deposit taking, are not regulated. The BOU is responsible for monitoring the prudential regulation of the banks and non-banking financial institutions, as well as ensuring that the general purpose financial statements are prepared in accordance with applicable requirements. Both the Commercial Bank Department and the Non-Banking Financial Institution Department have adequate capacity to fulfill this responsibility.[32] Between 1998 and 1999, 4 banks failed and 2 banks merged with more healthy banks.[33] Since the collapse, the legal framework and supervisory capacity have been improved. The Financial Institutions Act (2004) gives the BOU wide authority. Banks and non-banking financial institutions are monitored through ad hoc on-site inspection and regular off-site supervision. The BOU reviews and approves the financial statements before they are published. In practice, the supervisory staff reviews financial statements for compliance with supervisory regulations and relies on external auditors to ensure that financial statements are IFRS/IAS-compliant. With regard to the reliance on auditors, there are arrangements for approval of the audit firm conducted by the BOU and through tri-lateral meetings among bank supervision, the bank management, and the external auditor. If not satisfied with the quality, the BOU may reject the audit report and appoint a new external auditor for the bank at the expense of either the bank, external auditor, or both. Improved effective sanctions have been introduced in the Financial Institutions Act (2004), including revisions of financial statements, fines, revocation of license (in extreme cases), variations in the terms and conditions of licensing, removal or suspension of any person from management, as well as civil and criminal penalties. In one recent case, the BOU insisted that a bank's financial statements be restated to steer clear of a qualified audit opinion.

30. **The Uganda Insurance Commission lacks capacity to monitor compliance with financial reporting requirements of insurance companies and lacks effective sanctions to enforce compliance.** The Inspectorate Department performs off-site supervision of annual returns and financial statements of insurers, however the focus is not to monitor compliance with IFRS/IAS. There are no effective legislative sanctions available for noncompliance, apart from suspending or revoking an insurer's license.

31. **The Parastatal Monitoring Unit lacks capacity to fully exercise its monitoring role over public enterprises.** Many public enterprises do not submit their annual audited financial statements in time to the PMU. The PMU is sparingly staffed and reliant on the Office of the Auditor-General to monitor compliance with financial reporting requirements.

32. **No effective and efficient institutional arrangement exists to ensure compliance with auditing standards and the professional code of ethics.** The ICPAU

[32] The Commercial Bank Department supervises 15 commercial banks, and 2 development banks; the Non-Banking Financial Institution Department supervises 7 credit institutions and 1 micro-finance deposit taking institution. It is anticipated that further micro-finance deposit taking institutions will soon be registered.

[33] Reasons varied but included management fraud, deficiencies in accounting record and supporting documentation, and accounting misstatements, including recognition of assets that the bank did not own, misstatement of income, contingent liabilities, and undisclosed insider lending. The auditor of one of the failed banks was not a qualified auditor.

lacks capacity (staff and funding) to carry out necessary quality review monitoring and enforcement activities. Auditors are not subject to practice review; disciplinary action is complaints-driven only. While disciplinary action to date focused on less serious transgressions, such as advertising, sophisticated fraud cases have not yet been subject to disciplinary action. Proposals to establish a central monitoring unit for ECSAFA has not yet materialized.

III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

33. **Other laws specify particular accounting requirements that do not align with standards prescribed by the ICPAU.** As mentioned earlier, accounting and disclosure requirements set by the Insurance Act and Companies Act are incompatible with IFRS/IAS requirements. The ICPAU requires that standards set (or adopted) by it be applied to the extent of non-contradiction with other legal requirements. The one local accounting standard dealing with value-added tax (VAT) differs from IAS 18, *Revenue*. The local standard permits revenue, including VAT, to be recognized with the corresponding VAT deduction on the face of the income statement. IAS 18 requires revenue to be recognized net of sales taxes.

34. **There are significant "compliance gaps."** Compliance gaps refer to the differences between applicable accounting standards and actual practice**.** Two recent reviews of financial statements of Ugandan companies illustrated a number of areas where practice falls short of the standards. In the first review, an academic study was done by a senior lecturer at the Makerere Business School to examine financial statements of 21 banks and 14 insurance companies. The second review, conducted for the purposes of the ROSC Accounting and Auditing exercise, involved an assessment of 31 sets of financial statements (6 listed companies, 11 banking institutions, 5 insurance companies, 2 credit companies, and 7 parastatals); as well as interviews with accountants, auditors, and regulators. The first review was conducted in July 2003, the second review in November 2004, both obtained similar results. The review of financial statements did not cover compliance with "recognition and measurement" requirements of accounting standards, which is not detectable through a review of financial statements. Selected compliance gaps in the ROSC review are presented below:

- ***Outdated terminology and practices.*** The financial statements of some sampled companies use outdated terminology. Many companies did not appropriately separate items between current and noncurrent in balance sheet presentation. In 3 cases the income statement did not comply with the prescribed format.
- ***Statement of changes in equity.*** In 3 cases, the statement of changes in equity was not included as part of the financial statements; and in another 3 cases, the statement was not presented in the required format.
- ***Cash flow statement.*** Disclosures and reconciliations were omitted in some instances.
- ***Consolidated financial statements.*** In one instance a subsidiary was not consolidated on the basis of dormancy (although evidence of intercompany transactions existed). This is contrary to IFRS/IAS requirements and is not one of the bases for exclusion allowed by the Companies Act. In 3 other sample companies, disclosures regarding equity interests were lacking, limiting

conclusions on the appropriate accounting treatment. In 4 sample companies, there were business combinations but no disclosure of accounting method applied.

- ***Exceptional items*.** Two companies incorrectly displayed exceptional items on the face of the income statement.
- ***Change in accounting policy.*** In 5 samples, disclosure requirements related to a change in accounting policy were exceedingly inadequate.
- ***Employee benefits*.** Some companies failed to provide required disclosures.
- ***Related party disclosures.*** Many companies had not disclosed information on related party relationships, and some companies that reported related party transactions failed to provide required detailed information.
- ***Financial instruments*.** In almost half of the sampled companies, financial instruments disclosures were missing or exceedingly inadequate. Interviews revealed that the rapid changing thin market created difficulties in determining fair values reliably, and that some confusion still exists regarding the classification of financial instruments.
- ***Contingencies.*** Some reviewed companies lacked adequate disclosure about the nature of contingent liabilities.
- ***Segment reporting.*** Two of the 6 listed companies provided no segment information; another failed to comply fully with IFRS/IAS requirements.
- ***Property, plant, and equipment.*** Although there were indications that some sampled companies had long-term borrowings from banks, disclosure on restricted assets pledged as security was lacking. Interviewees also indicated that indicators of impairment of assets and evidence to support the recoverable amount are unreliable due to the nature of the economy.

Additional disclosure by banks. Contrary to the requirement of IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* some banks did not disclose (a) accounting policy for losses on loans and advances; (b) the nature and carrying amount of the assets pledged as security; (c) an analysis of assets and liabilities into relevant maturity groupings; (d) significant concentration in the distribution of assets, liabilities, and off-balance sheet items; and (e) disclosure on contingencies and commitments.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

35. **The big 4 international accounting firm networks audit all of the 6 listed companies and the 15 registered banks in Uganda.** In addition, these firms also audit most of the multinational and other large companies operating in the country. Local accounting firms mainly audit the small and medium enterprises.

36. **International Standards on Auditing have been adopted, but many compliance gaps exist.** Some auditors do not understand and thus largely ignore ISA. Unless associated with the international network of accounting firms, most audit firms have no access to quality practice manuals. The ROSC team noted the following observations from interviews with practicing auditors, senior leaders of the auditing profession, and regulators of various industries:

- Lack of knowledge of theoretical and practical application of standards, coupled with no independent practice review mechanism and disciplinary procedures, adversely affects audit quality.
- Audit opinions may not be suitably qualified due to pressure on audit fees or as a result of not applying professional competence and due care.
- Auditors seldom note any fraud, errors, or material irregularities in their reports. If financial statements require qualification, the auditors would prefer alerting management via the management letter rather than complying with the standards.
- No distinction is made in the format of the audit report based on the type of assurance engagement undertaken (e.g., standard audit opinion is expressed when a compilation of financial statements, review engagement, or agreed upon procedures have been undertaken).
- Engagement letters are sometimes not issued due to unwillingness of clients to accept such a letter.
- In the audit of small and medium enterprises, audit planning is not always done due to fee income pressures and/or lack of systems and controls when a substantive audit approach is followed. Audit risk and audit materiality are not determined in accordance with the standard and not considered when conducting the audit.
- Documentation practices fail to provide audit evidence to support the audit opinion, mostly in the audit of small and medium enterprises.
- Meaningful analytical procedures are difficult due to absence of industry information.
- Apart from the firms with international affiliations, most firms do not comply fully with the ISA on quality control due to lack of capacity. Second partner peer reviews are generally not done.
- Auditors sometimes find it difficult to obtain audit evidence and so rely on management representations, particularly for fair values, impairment of assets, related party transactions, segment information, and contingent liabilities.
- Reliance is placed on work of experts, such as property valuers and actuaries, without assessing the adequacy and the expert’s competence and objectivity.
- Transparency in disclosure of audit fees is lacking; measurement is sometimes inaccurate with no separation between auditing and nonauditing services.
- Professional clearance (communication with retiring auditor) is not always done, as most retiring auditors do not respond to such requests.
- Unlicensed auditors competing in the market put pressure on audit fees, adversely affecting the quality of the audit.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

37. **Both the supply and demand side of the capital markets in Uganda are not yet fully developed.** Ugandans have traditionally been risk adverse with a poor savings and investment culture. A nationwide public awareness campaign is starting to contribute to a wider knowledge and understanding of investment. Over time high-quality financial statements will play a prominent role in informing investment decisions.

38. **The quality of financial statements is influenced by the company's auditor.** Interviews and discussions with various stakeholders, including investment bankers, financial analysts, and regulators, were conducted by the ROSC team. These stakeholders revealed that for medium-sized and listed companies more reliance is placed on financial statements audited by the affiliates of large international firm networks. However, the small investor community in Uganda supplements reliance on audited financial statements by on-site inspection to assess the management of listed companies. The public perception is that the audit profession does not really add value, but that it is a requirement for a company to win a government tender or to obtain a bank loan.

39. **Financial statements are not readily available.** The Companies Act requires only public companies to file financial statements with the Registrar of Companies, however, in most cases this is not done. Financial institutions, insurance companies, and listed companies are required to publish annual audited financial statements in newspapers and to submit these financial statements to regulatory agencies. However, in practice only a summarized balance sheet and profit and loss account are published. Therefore, even in the regulated industries, a complete set of financial statements is not readily available to outside interested parties.

40. **Need a strong enforcement mechanism.** The interviewees in general viewed that the precondition for improvements in the quality of corporate financial reporting in Uganda is the establishment of a strong regulatory regime with effective enforcement mechanisms for ensuring compliance with accounting and auditing standards.

VI. POLICY RECOMMENDATIONS

41. While IFRS/IAS and ISA are the benchmarks that the World Bank uses to assess accounting and auditing standards and practices, *regulatory* standards for accounting and auditing are still evolving internationally and vary from country to country. The regulatory regimes lie at different points between complete self-regulation (by the professional bodies themselves) at the one extreme to comprehensive independent regulation (in its strictest form, direct government regulation) on the other. The worldwide trend is toward accountancy bodies being more open in their governance and regulatory processes and for more independent oversight or regulation in areas of greater public interest.[34] There is also recognition that high-quality corporate financial reporting depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. Three important links exist in the enforcement sequence: (a) directors and top management must ensure that financial statements are prepared in compliance with established standards; (b) auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair position of the entity's financial position and results; and (c) regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of compliance and consistently take appropriate actions against violators.

[34] Many countries have already moved closer to changing the balance away from self-regulation of the auditing profession. Post Enron, WorldCom, and Parmalat developments have been dramatic; governments, including those of the United States of America, the United Kingdom, the member states of the European Union, and South Africa, have responded to the many issues arising, including the regulation of auditors.

42. In the absence of international regulatory standards for accounting and auditing, World Bank staff drew on their experience and international best practices in formulating recommendations, as well as valuable inputs from the country stakeholders. The following section sets out the principle recommendations, while the Annex sets out options and further guidance to find the most appropriate and effective regulatory structure for the accountancy profession in Uganda. The recommendations provide input for preparing a comprehensive country action plan and are aimed at the country authorities who have authority for implementation.

43. **Improve the statutory framework of accounting and auditing.** Steps should be taken to ensure that legal and regulatory requirements on accounting, auditing, and financial reporting fully protect the public interest. Legal reforms should focus on the following:

- ***Legally mandate the use of IFRS/IAS and ISA without modifications.*** This recommendation requires a review of provisions on accounting, auditing, and financial reporting for general purpose financial statements in the Companies Act (1961), Insurance Act (1996), Uganda Securities Exchange Listing Rules (2003), Public Finance and Accountability Act (2003), Accountants Act (1992), and other related regulations. Such provisions may be amended or be repealed and a new Financial Reporting Act should be enacted. The IFRS/IAS and the related IASB-issued interpretations should be the legally enforceable standards applicable to the preparation of the general purpose financial statements[35] of all public interest entities,[36] including Government Business Enterprises.[37] The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other related pronouncements issued by IFAC. Also mandate the IFAC Code of Ethics for Professional Accountants for all practicing auditors and require separate disclosure of audit and non-audit service fees. Adequate legal sanctions should be provided for noncompliance with these financial reporting requirements.

- ***Agree to a simplified financial reporting framework for small and medium enterprises (SME).*** Until finalization of the IASB project on SME accounting

[35] General purpose financial statements are intended to meet needs of users who cannot have reports tailored to specific information needs. These users include investors, creditors, suppliers, media, employees, and Uganda Revenue Authority. Regulators, such as those in the banking, insurance, and securities and exchange markets, will specify additional regulatory reporting requirements.

[36] Public interest entities may be defined by the nature of their business, their size, and their number of employees; or by their corporate status by virtue of their range of stakeholders or some other measure. Examples of public interest entities include banks, insurance companies, investment funds, pension funds, medical schemes, listed companies, and large enterprises. The large enterprises, to be considered public interest entities, are defined as individual enterprises and groups of enterprises that meet two of the three following thresholds: (a) total number of employees exceeding [a number to be decided in consultation with various stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with various stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with various stakeholders].

[37] In accordance with International Pubic Sector Accounting Standards (IPSAS) issued by International Public Sector Accounting Standards Board of IFAC, Government Business Enterprises should comply with IFRS/IAS. A Government Business Enterprise is defined in IPSAS as an entity that has all the following characteristics: (a) power to contract in its own name; (b) financial and operational authority to carry on a business; (c) sells goods and services in the normal course of its business to other entities at a profit or full cost recovery; (d) not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) controlled by a public sector entity. Other public enterprises should comply with IPSAS.

standards, stakeholders should agree on the criteria to clarify which entities should be eligible to use the IASB Standards for SMEs.[38] Once the international standard is available, it should be applied in terms of the agreed local criteria.

44. **An independent oversight body should set, monitor, and enforce accounting and auditing standards and codes.** Such an independent oversight body should be accountable to a minister and the legislature, not only administratively but also for its oversight responsibilities. In order to ensure proper factual and perceived independence of the oversight body, there should be a mixture of professional accountants and nonaccountants in the governing body or council of the oversight body. Practicing auditors should *not* dominate the council. Council members should be drawn from the appropriate government ministries, the CMA, the USE, the BOU, professional accountancy bodies, legal profession, and academia. All stakeholders—government in particular —should assure adequate funding for the oversight body. The oversight body would be responsible for the following activities:

- ***Setting accounting and auditing standards.*** The oversight body should adopt, without modification, all IFRS/IASs, ISAs, and IFAC-issued Code of Ethics for Professional Accountants. The oversight body should also be entrusted with the responsibility of prescribing accounting and auditing requirements for small- and medium-size enterprises.

- ***Licensing of auditors.*** The oversight body should maintain a register of auditors and audit firms approved to audit public interest entities. Policies and procedures for accreditation of auditors to comply with the IFAC-issued International Educational Standards should be developed. A mechanism should be developed for renewing the license of auditors in public practice based on a performance evaluation.

- ***Practice review for auditors of public interest entities, investigating complaints, and assessing stakeholders' and public's interest.*** The practice review should evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with regard to selected audit engagements. Valid complaints against auditors and audit firms should also be investigated. In the case of material infractions, the oversight body should recommend appropriate actions to enforcement authority for implementation. In addition, the oversight body will oversee activities undertaken by professional bodies to assess whether the interests of stakeholders, including the public, are being served.

- ***Monitoring compliance with accounting standards***. General purpose financial statements of public interest entities should be reviewed for compliance with accounting standards. Findings on noncompliance should be forwarded to the enforcement authority along with recommendations on the

[38] It is expected that the IASB would not develop guidelines by which entities should or should not be eligible to use the IASB Standards for SMEs; rather it is decision by national jurisdictions. However, the IASB would indicate those entities for which the SME Standards were not appropriate and any such entities using them would not be able to assert that their financial statements were prepared in accordance with IFRS/IAS.

sanctions for infractions. Adequate legal backing will be necessary for effective monitoring activities. This monitoring unit should have experienced staff (full-time or part-time) with capacity to conduct in-depth reviews of financial statements.

- ***Enforcing sanctions for violations.*** The enforcement authority of the oversight body should determine appropriate actions against violators of standards and codes. In addition to resorting to the national legal system, the oversight body should impose administrative sanctions against management of entities, auditors, and audit firms. This will facilitate enforcement without depending fully on the lengthy legal process. Wide public disclosure of the results of monitoring and enforcement actions will bolster a culture of compliance by acting as incentives both for preparers and auditors to abide by standards.

45. **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. The oversight body should pro-actively monitor compliance while the other regulatory bodies complement these efforts by swiftly alerting the oversight body to noncompliance issues. Other regulators, including government departments, should liaise with the oversight body to verify that audit reports are prepared only by licensed auditors. The relationship of the oversight body as the statutory regulator and the professional self-regulatory bodies needs to be determined, specifically the mutual recognition of functions that are of interest to both (refer to Annex A).

46. **Enhance professional education and training.** Up to date copies of IFRS/IAS and ISA should be easily accessible to all players:

- ***Preparers.*** Directors of public interest entities should be made aware of their responsibilities with regard to financial reporting, and the corporate accountants should get the training to help them in the preparation of IFRS/IAS-based financial statements.

- ***Regulators.*** Staffs of the CMA, USE, BOU, Uganda Insurance Commission, and other regulators could better enforce accounting standards by receiving IFRS/IAS theoretical and practical training.

- ***Auditors.*** Auditors of public interest entities should get practical training to help them to audit the IFRS/IAS-based financial statements and to comply with ISA.

- ***The ICPAU syllabus.*** Global developments in accounting and auditing must be reflected in the education and training arrangements by the ICPAU on a timely basis. Business ethics should be taught as a separate subject. The proposed 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 mentor should have sufficient knowledge and experience with practical aspects of all the applicable standards and codes. The practical experience environment also needs to be assessed and approved (e.g., reviewing the nature and scope of practical experience and training arrangements of employers to ensure trainees would receive practical exposure to core areas and proper direction and supervision). In addition, the ICPAU should provide detailed written guidance for employers, mentors, and trainees regarding the program of practical experience. The ICPAU should also monitor previously approved employers and mentors.

- ***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/IAS and ISA learning materials easily accessible and less costly to students.
- ***Training providers and teachers.*** To qualify as an authorized training provider, an individual should have sufficient knowledge and experience with practical aspects of all the applicable standards and codes. Teaching must be practical oriented. The skills of some existing educators should be upgraded with train-the-trainer programs.

47. **Continuing professional development should be made compulsory and should be regularly monitored.** The ICPAU requirements on continuing professional development should be brought in line with the IFAC IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*. An efficient mechanism for monitoring and enforcement of such requirements should be developed. Affordable relevant programs should be made readily available to update all members on local and international developments, addressing practical implementation aspects of accounting and auditing standards.

48. **Meet IFAC membership obligations.** Improvements are needed to bring the ICPAU requirements related to professional education, practical training, and continuing professional development in line with IFAC requirements. The ICPAU should update the Uganda Code of Ethics in line with the IFAC Code. The ICPAU should require firms to implement a quality control system in accordance with the IFAC International Standard on Quality Control. And the ICPAU should develop its own practice review system to ensure that auditors comply with applicable auditing and ethical standards and independence requirements, and implement appropriate disciplinary action when compliance is breached. This recommendation should serve as an interim improvement until effective implementation of the oversight body, but should still be relevant thereafter. The ICPAU may then consider the appropriateness of relying on the work of the oversight body to fulfill its IFAC membership obligations.

49. **Strengthen the capacity of the ICPAU.** The ICPAU (staff and funding) capacity needs to be strengthened to meet IFAC membership obligations. Capacity can be improved through building a full-time team comprising technically qualified professionals to discharge administrative and professional responsibilities under the close supervision of the oversight board. The ICPAU Council should include non-members to ensure wider accountability and increased credibility of the profession.

50. **Strengthen capacity of the regulatory bodies.** Take necessary steps to strengthen capacity of the regulators (including Uganda Insurance Commission, PMU, USE, and forthcoming regulator of pension funds) to enable them to effectively deal with accounting and financial reporting practices of the regulated entities. Specifically the sanctions available to the Uganda Insurance Commission and the USE need to be strengthened, and the staff capacity of the PMU needs to be increased. Also strengthen capacity of the Registrar of Companies to enforce timely filing of financial statements. As noted in paragraph 46, the staffs of the CMA, USE, BOU, Uganda Insurance Commission, and other regulators could better enforce accounting standards by receiving IFRS/IAS theoretical and practical training.

51. **Utilize limited capacity effectively by joining efforts on a regional basis.** Possibilities of regional joint efforts should be explored and supported to increase capacity of accountancy professional bodies and regulators in the region. Discussions on regional co-operation have been initiated; the ECSAFA is planning to establish a central monitoring unit to undertake monitoring visits of licensed auditors in the region. Furthermore, there is a drive to harmonize East African capital markets, led by the regulatory authorities; the stock exchanges; and brokers' associations in Kenya, Uganda, and Tanzania. The East African Members States Securities Regulatory Authorities (EASRA) have been formed to drive the harmonization.

ANNEX A. IMPLEMENTATION OF POLICY RECOMMENDATIONS REGARDING THE REGULATION OF AUDITORS AND ACCOUNTANTS IN UGANDA

There are several options that may be considered in finding the most appropriate and effective regulatory structure for the accountancy profession in Uganda. The following factors should be taken into account when considering the most appropriate structure:

- The ICPAU currently serves as both a regulator and a professional accountancy body.
- The ICPAU has regulatory functions,[39] however accountants and auditors dominate the composition of its governing body.
- The numbers of ICPAU members, accounting and auditing students and audit firms in Uganda is relatively small.
- Effecting any legislative change in existing laws is complex.
- Functions of a professional membership body and those functions in need of oversight in the public interest must be differentiated. (see Table A1 below)
- The relationship between a statutory regulator and a professional body should be recognized, specifically the functions that are of mutual interest, including (a) accreditation of professional education and training of professional bodies for the licensing of auditors; (b) quality assurance (practice) review of auditors, (c) code of ethics; (d) sequence and processes involved in taking disciplinary action. (Also see introductory note to options over the page.)
- The relativity of cost-benefit factors and capacity constraints should be considered for each option.

Table A1. Differentiating between Professional Entity Role and Functions of Oversight

Regulatory oversight type functions	***Professional body/ representative type functions***
Protect public interest - accountable to Minister and legislature	***Protect member' interests - accountable to members***
1. Set accounting standards (adopt IFRS/IAS) 2. Set auditing standards (adopt ISA) 3. Set ethical standards or monitor ethical standards adopted by profession 4. License auditors and firms 5. Monitor compliance with accounting standards 6. Practice review for auditors of public interest entities 7. Investigate complaints and assess stakeholder and public interest 8. Enforce sanctions for violations	1. Provide implementation guidance on IFRS/IAS and ISA 2. Provide guidance on local accounting and auditing issues 3. Set standards or provide guidance in areas other than accounting and auditing such as financial management, corporate governance, and ethics 4. Regulate admission requirements to profession: ▪ Set requirements for membership ▪ Set educational standards ▪ Define syllabus ▪ Monitor quality of tertiary training providers ▪ Set professional exam and assess candidates ▪ Set practical experience requirements and verify compliance 5. Practice review for *all* licensed auditors 6. Investigate complaints and enforce disciplinary actions against members 7. Provide for continuing professional development of members, and monitor compliance

[39] The ICPAU acts as the licensing authority for members engaged in public auditing practice. It has a legal mandate to regulate and maintain the standard of accountancy in the country, including monitoring and enforcement. Its members and associates are recognized under the Companies Act as sole auditors of companies.

A. Relationship between regulator and professional body to achieve their respective functions

Both regulator and professional body may undertake similar activities, or arrangements may be made whereby reliance is placed by one party on the work of the other. For example, the regulator may monitor activities of professional bodies, such as practice review for auditors and disciplinary matters; and, if done effectively by professional bodies, may place reliance on such activities to achieve their regulatory functions. It may however want to have a separate investigative and disciplinary process available for high profile public interest cases. To fulfill its IFAC membership obligations, the professional body should ensure that a mandatory quality assurance review program is in place for its members performing audits of financial statements of (as a minimum) listed entities. The professional body should establish and publish criteria for evaluating all other audits of financial statements to determine whether they should be included in the scope of the program. The professional body may consider the appropriateness of relying on the work of the oversight body to fulfill its IFAC membership obligations. Where regulators perform any of the functions, the professional body should encourage and assist, when appropriate, those responsible for those functions to follow IFAC guidance in implementing them. If the scope of the regulator's quality reviews is materially narrower than the scope required by IFAC, the professional body should establish a program to deal with such aspects that are not within the scope of the regulatory program.

B. Options 1-4 to consider in finding the appropriate regulatory structure in Uganda: The four options in Table A2 are not the only possibilities but are provided as a broad frame of reference to find the most appropriate regulatory structure.

Table A2. Options for Appropriate Regulatory Structure in Uganda	
Option 1. First step to statutory oversight *Ensure appropriate public representation on the ICPAU Council*	
❑ Keep the ICPAU intact; clarify responsibilities to include both regulatory and professional body functions. ❑ Increase public interest representation on ICPAU Council . Accountants and auditors should not dominate the Board. ❑ ICPAU capacity should be strengthened to perform functions. ❑ Consider appropriateness of establishing a Financial Reporting Review Panel (which investigates complaints about the financial statements of public and large private companies) within the ICPAU over medium term.	**Strength** • Provide for public oversight to some extent. • Least legislative amendments required, could be implemented in the short term. • Least cost implications. **Weakness/Risk** • Buy-in from profession to give up self-regulation. • No perceived separation of public interest and self-interest functions.
Option 2. Improved statutory oversight *Self regulation by profession, limited statutory oversight by separate committee*	
❑ Similar to option 1, but instead of increasing public interest representation on the ICPAU Council , establish a professional oversight board/committee with oversight of the ICPAU regulatory functions . Could be a committee within CMA or Ministry of Finance, Planning and Economic Development, its composition to reflect public interest stakeholders.	**Weakness/Risk** • There are some (although not adequate), public interest representation on the ICPAU Council, however, they are also CPAs. There will be, to some extent, duplication of public interest and government oversight in the same sector. • Additional funding requirement for new body.

<table>
<tr><td colspan="2">Option 3. Strong statutory regulation of audit function only
Establish a statutory Regulatory Board for Auditors</td></tr>
<tr><td>❑ Establish a new regulatory board for auditors (i.e., an audit oversight body) with responsibility for regulating functions 2, 4, 6 as well as 3, 7 and 8 in Table A1 (as far as it relates to the audit function).
❑ Regulatory Board for Auditors to focus on regulation of audit profession. This is similar to approach in the United States with oversight of accounting and auditing by separate bodies.
❑ The regulatory board for auditors may consider accrediting members of various professional bodies (including the ICPAU, ACCA, CPA Kenya, etc.) that it will licence as auditors.</td><td>Strength
• Protect public interest with regard to audit function by splitting regulatory-type functions from professional body-type functions.
• More appropriate that an external body accredits qualification for licensing of auditors than the provider of such a qualification.

Weakness/Risk
• Monitoring of compliance with both accounting and auditing standards not centralized in one regulatory body. To achieve economies of scale, it may be beneficial to have one body monitoring and enforcing compliance with accounting and auditing standards, as the same case may have both accounting and auditing ramifications.
• Additional funding requirement for new body.</td></tr>
<tr><td colspan="2">Option 4. Strong statutory regulation to include financial reporting</td></tr>
<tr><td>❑ Establish a statutory regulator of accounting and auditing, fulfilling functions 1- 8 in Table A1
❑ Professional membership functions fulfilled by separate professional bodies.
❑ As with option 3, the CPA Uganda qualification would compete with other existing institutes (such as ACCA, CPA Kenya, etc.) to be accredited to provide accountants that could be licensed as auditors.</td><td>Strength
• Same as Option 3 but expanded to include public oversight of financial reporting as well.

Weakness/Risk
• Additional funding requirement for new body.</td></tr>
</table>

C. Assignment of bodies to fulfil regulatory and professional membership functions in options 3 and 4 in section B.

This schematic presents the options available to assign bodies to fulfil regulatory and professional membership-type functions respectively in options 3 and 4 in Table A2, are set out below.

Regulatory body

New body

- If a new statutory regulator is established, it may have a better chance of success than trying to re-invigorate or re-organise existing bodies. However, risks with such an approach include the failure to amend on a timely basis the enabling legislation of the ICPAU and to adopt new legislation for the new regulatory body, and rejection due to the perception that ICPAU is already a regulatory body reporting to government.

ICPAU

- Consider using the other professional bodies such as ACCA to fulfil professional membership type functions.
- If the ICPAU becomes the regulatory body, it has the advantage that no additional bodies are created. However, the composition of the ICPAU Council has to be amended to adequately protect the public interest. Membership should include inter alia interests of government, industry, industry regulators, investors, public, and the accountancy profession. Accountants and auditors could be represented on the ICPAU Council but should not dominate. There may be reluctance to sacrifice current self-regulation. In addition, the ICPAU has to accept wider responsibilities of functions that are not currently being undertaken (such as regulatory functions 5 and 6 in Table A1), and more aggressively fulfil functions 7 and 8 in Table A1. Under this approach some of the professional membership type functions (such as education and training of accountants) of the current ICPAU would be transferred to other professional bodies.

ANNEX B. ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
BOU	Bank of Uganda
CMA	Capital Markets Authority
CPA (U)	Certified Public Accountant of Uganda
EASRA	East African Members States Securities Regulatory Authorities
ECSAFA	Eastern Central and Southern African Federation of Accountants
gaap	Generally accepted accounting practice
GDP	Gross domestic product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICPAU	Institute of Certified Public Accountants of Uganda
IES	International Education Standards (IFAC)
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
PMU	Parastatal Monitoring Unit (Ministry of Finance, Planning and Economic Development)
ROSC	Reports on Observation of Standards and Codes
SME	Small and medium entities
UGX	Uganda Shillings
USE	Uganda Securities Exchange
VAT	Value added tax