Promoting Professionalism in Accountancy

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

GUIDELINES FOR AUDIT OF COOPERATIVE SOCIETIES

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Table of Contents

PURPOSE

These Guidelines are designed to assist accounting firms in the audit of Cooperative Societies in Uganda. Cooperative Society audits can vary in size and complexity, and there is often a public interest element to them. This increases the risks to auditors when carrying out the audit of Cooperative Societies. These Guidelines aim to assist accounting firms in the consideration of particular areas of interest, including developing an understanding of Cooperative Society related risks; compliance with laws and regulations; appropriately tailored engagement letters; and auditors' reports. These Guidelines provide guidance to assist the auditor to fulfil the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.

Disclaimer

These Guidelines are persuasive rather than prescriptive. However, they are indicative of good practice and have similar status to the explanatory material in International Standards on Auditing. The Guidelines are not intended to be comprehensive or to deal with all situations that might be encountered, i.e. they are supplementary to and not a substitute for the International Standards on Auditing (ISA) and the relevant laws and regulations, which should be regarded as the primary source of guidance for auditors. Each practitioner is encouraged to apply professional judgment in guidance provided herein after. ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Guidelines.

ABOUT ICPAU

The Accountants Act, Cap 266, established the Institute of Certified Public Accountants of Uganda (ICPAU) in 1992. This has now been repealed and replaced by the Accountants Act, 2013.

The functions of the Institute, as prescribed by the Act, are to regulate and maintain the Standard of Accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practising accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

International Affiliations

The Institute is a member of:

- International Federation of Accountants (IFAC)
- Pan African Federation of Accountants (PAFA).

Vision

To be a world class professional accountancy institute.

Mission

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

Core Values

- Professional Excellence.
- Integrity.
- Commitment.
- Good Governance.
- Social Responsiveness.

1.0 INTRODUCTION

The purpose of this Paper is to assist the auditor to develop an approach to the audit of the financial statements of cooperative societies as registered under the Cooperative Societies (Amendment) Act 2019 and licensed under the Tier 4 Microfinance Institutions and Money Lenders Act 2016. A Cooperative Society is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise[1]. Cooperative societies are member formed, member financed, member used, member controlled and member benefitting business enterprises. They are usually based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

This Guidance paper has been prepared by the Institute of Certified Public Accountants of Uganda (ICPAU) in consultation with the Uganda Cooperative Alliance (UCA) and the Uganda Microfinance Regulatory Authority (UMRA).

The Paper is based on the laws and regulations that regulate the operations of cooperative societies. Best practice norms have also been adopted and incorporated under particular areas. Every care has been taken in its preparation. However, the legislation itself is the sole authority of the law and these Guidelines should be used in conjunction with the relevant legislation.

2.0 BACKGROUND

The beginning of the cooperative movement in Uganda can be traced back to 1913, when four farmers decided to market their produce collectively in an Association, which came to be known as "Kinuakulya Growers". This was in response to the exploitative colonial marketing systems that were against the native farmers. The African farmers realised that forming cooperatives would give them a common voice, purpose and strong bargaining power. The continued exploitation of African farmers led to the formation of many other parallel farmers' associations, such as Buganda Growers Association in 1923 and the Uganda Growers Cooperative Society in 1933.

These events forced the colonial government to appoint a Registrar for cooperatives and to create a Department for Cooperative Development. However, many cooperatives refused to register, as they perceived this as a way of increasing government interference in their activities. Cooperatives were forced to operate underground until 1946 when the cooperative ordinance was enacted to legalise their operations. Since the 1946 ordinance meant increasing government control in cooperative business, many cooperatives refused to register under it.

[1] Statement of Minister of Trade, Industry and Cooperatives on the revival and formation of Cooperatives in Uganda, http://www.mtic.go.ug/wp-content/uploads/2019/09/Statement-on-Revival-and-Formation-of-Cooperatives-in-Uganda.pdf

Between 1952 and 1962, the Cooperative Societies Ordinance of 1946 was amended into the Cooperative Societies Act 1952, which provided the framework for rapid economic development as it provided for the elimination of discriminatory price policies and offered increased private access to coffee processing for Africans. Thus, between 1952 and 1962 cooperative membership increased tremendously.

With attainment of independence in 1962, the new government favoured cooperatives as policy instruments for rural development. The first Cooperatives Societies Act was enacted in 1963 with the aim of promoting the establishment and diversification of the cooperative movement in Uganda. The performance of cooperatives in the immediate post- colonial period was impressive with cooperatives enjoying a monopoly status in agricultural marketing. By 1970, cooperatives were the largest employer in Uganda, reaching almost every economic sector.

However, political interference and insecurity soon emerged. The 1970 Cooperative Societies Act removed all autonomy and gave the cooperatives minister direct control over the affairs of registered cooperatives societies. The military governance from 1971 to 1978 was unfavourable for cooperative development as cooperatives lost investments and capital assets to wars and conflict. Cotton and coffee prices dropped as did production. Some of the federations that had been formed in the 1960s and early 1970s such as the Uganda Cooperative Central Union, the Uganda Wholesale Consumer Cooperative Union and the Cooperative Bank collapsed. The structural adjustment policies such as economic liberalisation and decentralisation of the 1980s further exacerbated the situation, as the cooperative movement was unprepared for them. This resulted in continued decline in the performance of cooperatives in Uganda.

In order to revive the fallen cooperative movement, the Cooperative Societies Act, Cap 112 was enacted in 1991. This Act was intended to help farmers adjust to the changing business environment of a liberalised market economy. This Act as amended in 2019 is still the legislation governing cooperative societies in Uganda today. In the recent years, several attempts have been made to revive the cooperative sector and as such, the country has registered a steady growth in members of new cooperative societies. Currently there are over 10,746 registered cooperative societies with a membership of about 4 million[2]. These cooperatives are mainly involved in agriculture marketing, production, and provision of financial services. They play a major role in financial resources mobilisation, agro- processing and marketing of agricultural produce and the provision of services like transport and employment.

2.1 TYPES OF COOPERATIVE SOCIETIES

Cooperative societies in Uganda transcend all spheres of the economy with the common types being:

a) Marketing Cooperatives

[2] National Cooperative Policy (2011): Ministry of Trade, Industry and Cooperatives, http://www.mtic.go.ug/wp-content/uploads/2019/09/Final-Copy-of-Cooperative-Policy.pdf

These cooperatives are created to market farmers' produce such as coffee, maize, beans, matooke and livestock. Members then sell their produce through their cooperative and benefit from the economies of scale such as better prices for their produce.

b) Consumer Cooperatives

These are cooperatives created to provide goods and services to their members at competitive prices. Such societies are registered for the purpose of purchasing, procuring, processing, exchanging, hiring and dealing in goods, wares and merchandise including food, clothing, household foods, fuel and other necessities for individual or family consumption or use, as well as agricultural inputs for sale for its members.

c) Financial cooperatives

These are cooperative societies created to provide financial services to members. These include savings and credit cooperatives, cooperative village banks, cooperative insurance societies and cooperative banks.

d) Industrial cooperative societies

These are societies registered to produce, prepare, process or manufacture goods and merchandise for direct sale or under contract and may include artisans, craftsmen, contracting societies and producers of natural products. Such societies may also undertake contracts or sub-contracts for land clearance or reclamation, construction of industrial plants, public utilities of facilities for the development of natural resources and for the maintenance of buildings, plants and public utilities.

e) Service cooperatives

These are cooperatives created to provide services such as housing, health care, water, power and energy. The objective of these cooperatives is to provide high quality services at lower prices. There is no limit to the kind of services that can provided under the cooperative arrangement.

f) Health cooperative societies

These are societies registered to establish and operate plans or programs for health care, including hospital care, for its members and the members' dependants through contracts with physicians, medical societies, hospitals and other health operators. Such societies may discharge any of the following functions:

- Establishment, maintenance and operation of health plans;
- Construction, operation and maintenance of hospitals or other facilities where health care is provided to members and to other persons or groups of persons who become subscribers to the plans, under contracts;
- Provision of access to medical care as well as provision of appliances and supplies to health care providers.

g) Workers cooperatives

These are cooperatives, which are owned by the people who also work for the same organisation for the main purpose of negotiating better work conditions. Basic characteristics of workers' cooperatives include:

- The objective of creating and maintaining sustainable jobs and generating wealth to improve the quality of life of the worker- members, dignify human work, allow workers' democratic self- management and promote community and local development.

- The free and voluntary membership of their members, in order to contribute to their personal and economic resources.

Irrespective of the nature of operations, all cooperatives are governed under the same principles, which are:

i) Voluntary and open membership- anyone can join the cooperative irrespective of gender, social, racial, political or religious factors.
ii) Democratic member control- members control their business by deciding how its run and who leads it.
iii) Members' economic participation- all cooperative members invest in their cooperative. This means people, not shareholders benefit from a cooperative's profits.
iv) Autonomy and independence- when making business deals or raising money, cooperative never compromise their autonomy or democratic member control.
v) Education, training and information- cooperatives provide education, training and information so their members can contribute effectively to the success of their cooperative.
vi) Cooperation among cooperatives – cooperatives believe working together is the best strategy to empower their members and build a stronger cooperative economy.
vii) Concern for community- cooperatives are community- minded. They contribute to the sustainable development of their communities by sourcing and investing locally.

3.0 INSTITUTIONAL FRAMEWORK

All cooperatives in Uganda are regulated by the Ministry of Trade, Industry and Cooperatives. The Ministry's Department of Cooperatives is responsible for promoting an enabling environment for the development of sustainable and vibrant member-based cooperatives. The Department provides services designed towards facilitating the formation, organisation and operation of cooperative societies. The Department also advises on and monitors emergence and practice of good governance and member empowerment.

The government then delegates its supervisory, monitoring and control roles to local governments through the decentralisation policy. Some of these roles have also been taken up by other agencies such as the Uganda Cooperative Alliance (UCA) and Uganda Cooperative Savings and Credit Union Limited (UCSCU.

The Uganda Cooperative Alliance (UCA) Limited is the apex body for all registered cooperative societies in Uganda. It serves as the voice of the cooperative movement at both national and international level with a mandate to recommendations to government on matters of policy relating to cooperatives arbitration, capacity building and resource mobilisation for the cooperative movement in Uganda. As the umbrella organisation, UCA:

- Carries out arbitration on disputes affecting cooperatives in Uganda as mandated by the Cooperative Societies Act.
- Performs capacity building in areas of leadership, management, business skills and management of cooperatives using the recommended cooperative principles as well as cooperative sound practices.

- Provides advisory services to cooperatives in their business operations.
- Mobilises resources for the cooperative movement in Uganda.

4.0 REGULATORY FRAMEWORK

Generally, the environment in which a cooperative society operates is different from that of most commercial enterprises. Therefore, the auditor would need to be familiar with the regulatory background to governing cooperative societies. In Uganda, Cooperative Societies are registered under the Cooperative Societies Act, which provides for the registration of the societies, rights and liabilities of members, duties of registered societies, duties and privileges of the board, supervision and inspection of affairs, dissolution of cooperatives and dispute resolution. The governance of SACCOs, investment of funds, dividends or bonus, reserve fund, share transfer fund and contribution to the Education Fund by S. 109 of the Tier 4 Microfinance Institutions and Money Lenders Act 2016 Act.

Besides the Cooperative Societies Act, the Tier 4 Microfinance Institutions and Money Lenders Act 2016 govern the licensing and management of Tier 4 Microfinance Institutions, which include Savings and Credit Cooperative Societies (SACCOs). Sec.36 of the Tier 4 Microfinance Institutions and Money Lenders Act 2016 requires cooperative societies that carry on the business of financial services to be licensed by the Uganda Microfinance Regulatory Authority (UMRA) which is an autonomous body established by this Act to regulate, license and supervise Tier 4 microfinance institutions and money lenders. It is only registered societies that are licensed by UMRA that are allowed to include the words “Savings and Credit Cooperative Society” or “SACCO” in their names.

However, S. 110 of the Tier 4 Microfinance Institutions and Money Lenders Act 2016 requires bigger SACCOs, which have voluntary savings in excess of one billion five hundred million shillings or institutional capital of five hundred million shillings to apply in writing to the Bank of Uganda for a license. Therefore, the large SACCOs are licensed by the Central Bank while the small SACCOs (those with voluntary savings below one billion five hundred million shillings or institutional capital below five hundred million) that are licensed by UMRA.

The National Cooperative Policy (2010) provides guidelines for cooperative development in Uganda. The main objective of the Policy is to develop and strengthen the cooperative movement in efforts towards poverty alleviation, creation of employment opportunities and social- economic transformation of the country. Since SACCOs have been identified as significant drivers in the mobilisation of savings, enhancement of production and accumulation of capital, government’s current goal is to establish a SACCO in each Sub-County to spearhead savings mobilisation and increase household incomes.

5.0 GOVERNANCE OF COOPERATIVE SOCIETIES

On registration, a cooperative society becomes a body corporate by the name under which it is registered, with perpetual succession and a common seal, and with power to hold moveable and immoveable property of every description, to enter into contracts, to institute and defend suits and other legal proceedings and to do all things necessary for the purpose of its constitution.

The basic structure of cooperative society leadership and management has three parts or organs.

1. The members- the General Assembly of fully paid-up members is the supreme authority of the cooperative society. The Annual General Meeting (AGM) of fully paid-up members, performs a number of tasks such as approval of the cooperative mission/ vision, provision of overall direction of the cooperative's operations, appointment of auditors as well as approval of business plans, annual plans, budgets and policies.
2. The Board/ Committees put in place by the members to lead the cooperative society. The Board/ Committee forms the principal leadership/ governance of the cooperative society. The Board/ Committee's composition is determined by the AGM and its role is to keep oversight and direct the affairs of the cooperative on behalf of the general membership. Depending on the size of the cooperative and the nature of its business, the committee may with the authority of the AGM create a number of sub-committees like Loans, Planning/ Evaluation, Human Resource, Business Development and Disciplinary sub-committees to enhance the committee's efficiency.
3. The Staff who are hired by the board/ committee to handle the day-to-day operations of the society. The staff are appointed and supervised by the board/ committee to perform tasks such as preparing business plans and annual plans and budgets, maintaining books of accounts, making periodical financial and operational reports as well as implementation of policies and programmes of the cooperative.

Cooperative Societies are further obliged, under the Cooperative Societies Act, to fulfil the following obligations during their set up and daily operations[3].

- **Address of society:** Every registered society in Uganda is supposed to have a registered address to which notices and communications may be sent. Every change of address should be sent to the registrar within one month of the change. All societies should also display their names and addresses in a conspicuous position outside their addresses.
- **Regulation:** Every registered society should keep a copy of the Cooperative Societies Act and of the regulations made under it and of its byelaws and a list of its members open to inspection by any person, free of charge at all reasonable times during business hours at the office of the society.
- **Audit, annual returns and accounts:** Every registered society ought to have its accounts to be audited at least in every year by an auditor appointed by the annual general meeting and approved by the registrar, and the cost of the audit shall be borne by the society; except that-

[3] Part IV of the Cooperative Societies Act (S.20- 26)

a) No auditor chosen by a registered society to audit its books shall perform that function for more than three annual audits in succession unless authorised by the registrar;
b) Where the registered society is unable to appoint its own auditors, the registrar may appoint the auditors.

The appointed auditor should then submit a detailed audit report of the accounts and balance sheet to the committee and a true copy of the accounts and balance sheet to the registrar three months after its financial year end prepared in compliance with generally accepted professional audit standards and, in addition the auditor's opinion on whether or not the business administration of the society has been conducted efficiently and in accordance with cooperative principles and the auditing and accounting provisions of the Cooperatives Societies Act as well as its objectives, byelaws and any other decisions made by the annual general meeting.

- **Estimates and expenditure:** Every committee of a registered society shall cause estimates of the society's income and expenditure of both revenue and capital to be prepared for the coming twelve months at least three months before the end of its financial year. A copy of those estimates should be sent to the registrar for an opinion before they submission to the general meeting. Supplementary estimates may be prepared by a society during the financial year and submitted to the registrar for an opinion before they are submitted to the annual general meeting.

Cooperative societies should be run/ managed in a way that ensures active participation of members, transparency, accountability, equity and respect for rules and procedures.

6.0 DEVELOPING AN EFFECTIVE APPROACH TO THE AUDIT OF COOPERATIVE SOCIETIES

The Cooperative Societies Act requires that audits of cooperative societies be conducted in accordance with generally accepted professional audit standards and, in addition, include the audit of management efficiency. Whilst cooperative society audit clients may vary in size and nature, they are actually relatively high risk in comparison to other clients. Therefore, it is crucial that they are allocated sufficient time and resource and that they are approached with rigour and professional scepticism.

6.1 AUDIT REQUIREMENTS

Since Cooperatives are public interest entities, an auditor should ensure that he/ she is familiar with the International Financial Reporting Standards (IFRS) as adopted by the Institute of Certified Public Accountants of Uganda (ICPAU) for use in Uganda. The scope of publicly accountable entities in Uganda is provided for under IFRS for SMEs Implementation Guidelines.

6.2 COMPLIANCE WITH ISAs

ISAs apply to the audits of the financial statements of any entity, irrespective of the size of the entity, its legal form, or the nature of its activities. The commentary, which is set out below, identifies the special considerations arising from the application of individual ISAs to the audits of the financial statements of cooperative societies. Where no special considerations arise from a particular ISA, no material is included.

7.0 ENGAGEMENT LETTERS

The auditor should issue engagement letters in accordance with the principles and requirements of ISA 210 "Agreeing the Terms of Audit Engagements". Specific issues, which the auditor should address in engagement letters applicable to cooperative societies, include:

1. The nature and scope of the auditor's reporting responsibilities under the Cooperatives Societies (Amendment) Act, the Tier 4 Microfinance Institutions and Money Lenders Act 2016, the Tier 4 Microfinance Institutions and Money Lenders regulations, other relevant laws and regulations in Uganda as well as the guidelines and codes issued by Uganda Microfinance Regulatory Authority (UMRA);
2. The extent of the auditor's rights to obtain information and explanations from the relevant employer and/or persons to whom management has delegated some or all of his duties;
3. The fact that the audit will be planned so that there is a reasonable expectation of detecting material misstatements in the financial statements resulting from breaches of trust or statute. It should be made clear, however, that the audit should not be relied on to detect all breaches which may exist; and
4. The extent of the auditor's responsibility for information/documents, which may be contained in the documents containing the audited financial statements of the entity.
5. Agreement of management that it acknowledges and understands its responsibility:
   - For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
   - For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
   - To provide the auditor with:
     - i) Access to all information of which management is aware that is relevant to the preparation of the financial statements;
     - ii) Additional information that the auditor may request from management for the purpose of the audit; and
     - iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

The auditor should receive signed engagement letters prior to the commencement of the audit engagement. This should be done after the auditor has conducted the required client acceptance procedures. The engagement letter should refer to the most up to date cooperative societies legislation as well as the most recent auditing standards, being the International Standards on Auditing (ISAs) as adopted for use in Uganda.

Auditors are warned against performing any work without an engagement letter as it's the only way they ensure that the preconditions for the audit are in existence and management those charged with governance their responsibilities in the engagement.

8.0 PLANNING

In line with the requirements of ISA 300 "Planning an Audit of Financial Statements", audit planning activities for cooperative society audit engagements will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the society and changes in circumstances that occur during the audit engagement. In the development of the overall audit strategy and audit plan for audit of cooperative societies, the auditor needs to address areas of greater risk in the operations of cooperative societies such as:

- Poor leadership and governance;
- Inadequate capitalisation;
- Insufficient economic patronisation by the members;
- Inadequate storage, poor harvest handling and agro processing infrastructure;
- Fraud by management, staff and committees;
- Insufficient loanable funds to handle big loan demands;
- Political interference; and
- High delinquency levels.

Development of the overall audit strategy should begin at the commencement of the engagement and be completed/ updated based on the information obtained during the course of the engagement basing on particular circumstances such as the size and complexity of the cooperative society, the composition and size of the audit team, previous experience with the society and circumstances encountered in performing the audit.

In line with the requirements of ISA 315 (Revised 2019) - Identifying and Assessing the Risks of Material Misstatement, the auditor will need to obtain a thorough understanding of cooperative society by assessing the risks of material misstatement, at the financial statement and assertion levels. This will involve obtaining an understanding of the cooperative society industry, regulatory and other external factors including the applicable financial reporting framework. The auditors will also need to obtain an understanding of the nature of business operations of the cooperative society, including its ownership and governance structures and the way it is structured and financed to enable the auditor understand classes of transactions, account balances and disclosures to be expected in the financial statements.

8.1 REVIEW OF APPROPRIATENESS OF ACCOUNTING POLICIES

The auditors will also need to evaluate the appropriateness of the cooperative societies' accounting policies and assess their consistency with the applicable financial reporting framework and accounting policies used in the relevant industry. It is also important that the auditors obtain an understanding of the internal controls in the cooperative society, especially those that relate to financial reporting and the information systems, including the related business processes, relevant to financial reporting.

8.2 INTERNAL CONTROLS

The auditor should consider internal controls of the cooperative societies in accordance with ISA 315. The auditor shall obtain an understanding of internal controls, which in their professional judgement, are relevant to the audit. Factors relevant to the auditor's judgement about whether a control, individually or in combination with others, is relevant to the audit may include matters like;

- Materiality
- Size of the entity
- Nature of the entity's business
- Diversity and complexity of the entity's operations
- Applicable legal and regulatory requirements
- The nature and complexity of the systems that are part of the internal controls as well as whether and how a specific control, individually or in combination with others, prevents or detects and corrects material misstatements.

During the process of evaluating internal controls, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing or detecting and correcting material misstatements.

8.3 REVIEW OF COMPUTER SYSTEMS

In line with the requirements of ISA 315, during the process of auditing cooperative societies, the auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

a) The classes of transactions in the cooperative society's operations that are significant to the financial statements;
b) The procedures, within both information technology and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
c) The related accounting records, supporting information and specific accounts in the cooperative society's financial statements that are used to initiate, record, process and report transactions. This includes the correction of incorrect information and how information is transferred to the general ledger. The records may be either manual or electronic form;
d) How the cooperative society's information system captures events and conditions, other than transactions, that are significant to the financial statements;
e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and

f) Controls surrounding journal entries, including non-standard journal entries used to record non- recurring, unusual transactions or adjustments.

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

9.0 CONSIDERATION OF FRAUD RISKS

In line with ISA 250 (Revised) - Consideration of Laws and Regulations in an audit of financial statements, the auditor will have to obtain reasonable assurance that the financial statements of the cooperative society as a whole are free from material misstatement, whether caused by fraud or error. This will necessitate maintaining professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud may exist. The auditor should also assess the integrity of the society's management and those charged with governance, considering the potential for management override of controls and recognising the fact that audit procedures that are effective for detecting error may not be effective for detecting fraud.

In line with the requirements of ISA 315 (Revised), there should be a discussion among the engagement team members and the engagement partner of how and where the society's financial statement may be susceptible to material misstatement due to fraud, including how fraud might occur. This discussion should be preceded by the procedures to identify risks of material misstatement due to fraud. Such procedures include:

- Inquiries of management regarding management's assessment of risk due to fraud, management's process for identifying the risks as well as management's communication if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity and management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Inquiries of management and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
- For societies with an internal audit function, the auditor may make inquiries of appropriate individuals within the function to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity, and obtain its views about the risks of fraud in the society.
- Evaluation of unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, for the risk of material misstatement due to fraud.

The auditor should treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor should obtain an understanding of the cooperative society's related controls, including control activities, relevant to such risks.

The auditor shall then have to document significant decisions reached during the discussion regarding the susceptibility of the entity's financial statements to material misstatement due to fraud as well as the identified and assessed risks of material misstatement due to fraud at the financial statement and assertion levels.

10.0 CONSIDERATION OF LAWS AND REGULATIONS

The provisions of laws and regulations generally have a direct effect on the determination of material amounts and disclosures in the financial statements. Like any other audit engagement, audits of cooperative societies should take into account the applicable legal and regulatory framework for cooperative societies. The laws to which cooperative societies are subject such as the Cooperative Societies Act and the Tier 4 Microfinance Institutions and Money Lenders Act and Regulations, constitute the legal and regulatory framework for audits of cooperative societies. The auditor will have to assess the compliance of the financial statements with the provisions in these laws and regulations.

The auditor is responsible for obtaining reasonable assurance that the financial statements of the cooperative society, taken as a whole, are free from material misstatement, whether due to fraud or error. The auditor will therefore need to perform procedures to identify material misstatements in the financial statements due to non-compliance with laws and regulations in accordance with ISA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements". As stated in ISA 250, it is the responsibility of management and those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

If the auditor becomes aware of any instances of non-compliance or suspected non-compliance with laws and regulations, the auditor should obtain an understanding of the nature of the act and circumstances in which it occurred and further information to evaluate the possible effect of the non-compliance on the financial statements. In case it becomes impossible to obtain sufficient information about the non-compliance, the auditor should evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

10.1 MANDATORY RESERVES

The Cooperative Societies (Amendment) Act 2019 requires all registered cooperative societies in Uganda to have the following reserves:

i) Reserve Fund

Sec.47 requires every society, which does or can derive a surplus from its transactions to maintain a reserve fund to which they shall carry such portion of the net surplus in each year as may be prescribed by any regulations or bylaws of the registered society. While no further specifications are made in this regard by the Cooperative Societies (Amendment) Act 2019, Sec.52 of the Tier 4 Microfinance Institutions and Money Lenders Act 2016 requires cooperative societies that provide financial services (SACCOs) to have a reserve fund comprising of 10% of the annual surplus from the operations of the SACCO.

ii) Provident Fund

Sec.47 (4) requires every society, with the approval of the registrar, to establish a contributory provident fund for payment of pensions to its permanent employees at the time of their retirement.

iii) Contribution to the Education Fund

Sec.49 requires every registered cooperative society to contribute 1% of its net surplus per year to the National Cooperative Education Fund.

In addition to the requirements above, the Tier 4 Microfinance Institutions and Money Lenders Act 2016 requires SACCOs to have the following additional reserves:

iv) Share Transfer Fund

Sec.52(2) requires all SACCOs to maintain a fund to be known as the Share Transfer Fund to which they shall allocate annually out their surplus, if any, an amount to be determined by Uganda Microfinance Regulatory Authority (UMRA) from time to time, not exceeding 5% of the SACCO's share capital.

v) Savings Protection Fund

Sec.57 requires every SACCO to pay prescribed subscription into the SACCO Savings Protection Fund, which aims to provide protection for savings of the individual members, up to an amount determined by UMRA, by notice in a newspaper of wide circulation in Uganda. The annual contribution to this Fund shall be as determined by UMRA.

vi) SACCO Stabilisation Fund

Sec.54 requires every SACCO to subscribe to the SACCO Stabilisation Fund, which is managed by UMRA and make an annual contribution equivalent to 0.5% of the average total assets of the SACCO.

10.2 CONDUCTING SOCIAL AUDITS

Sec. 22(2b) of the Cooperative Societies (Amendment) Act 2019 states that in addition to regular audits, social audits shall be conducted annually to examine the following components:

a) Organisation: a measure of a cooperative society's fulfilment of its vision, mission and goals, feedback mechanisms, code of good governance and ethical standards;
b) Membership: a measurement on how the cooperative society responds to the needs of members, observed governance practices, considered provision for benefits of members and involved members in the affairs of the cooperative;
c) Staff or employees: an assessment of the cooperative's fulfilment of the needs and welfare of the employees in terms of safety of workplace and sanitation, including the provision for compensation and benefits;
d) Community and nation: to determine the involvement of the cooperative society and its contributions to the community and nation, in general;

e) Network alliance and linkages: an assessment of how the cooperative society relates to other organisations and its collaborative programs.

However, inclusion of social audits within the scope of audits of financial statements is inappropriate since social audits are generally an independent line of engagement that requires a separate guiding framework, separate set of skills and reporting format. The guidance therefore recommends that:

a) The management of SACCOs appoint an independent person to carry out the annual social audits;
b) The role of the statutory auditors of SACCOs will therefore be limited to making inquiries of whether management has complied with this legal requirement and if not, then raise it as a non- compliance issue.

11.0 MANAGEMENT REPRESENTATION LETTERS

In line with the requirements of ISA 580 Written Representations, the auditor shall obtain written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report in respect of:

- Management responsibilities for the financial statements and the matters concerned.
- Management fulfilment of its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework as set out in the terms of the audit engagement.
- Other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.

In cases where the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor should determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. In particular, if the written representations are inconsistent with other audit evidence, the auditor should perform additional audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor should determine the effect that this may have on the reliability of the representations and audit evidence in general.

12.0 REPORTING

After performance of the audit, an auditor is expected to make a report. The auditor's report, addressed to the members of the cooperative society in relation to the financial statements of the entity and a financial period of it, should state whether or not:

(a) the financial statements give a true and fair view of the financial position as at the end of the period and of the financial transactions of the cooperative society for the period then ended; and

(b) the financial statements have been properly prepared, in all material respects, in accordance with the relevant regulations;
(c) the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
(d) the accounting estimates made management or those in charge of governance are reasonable;
(e) the information presented in the financial statements is relevant, reliable, comparable and understandable;
(f) The financial statements provide adequate disclosures to enable the intended users to understand the material transactions and events on the information conveyed in the financial statements; and
(g) The appropriateness of the terminology used in the financial statements, including the title of each financial statement.

The principles set out in ISA 700 “Forming an Opinion and Reporting on Financial Statements” are applicable to the auditor’s report on financial statements of cooperative societies.

For audits of financial cooperative societies (SACCOs), key audit matters should be communicated in the auditor’s report in line with the requirements set out in ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report. This is because SACCOs are designated as publicly accountable entities under the ICPAU Guidelines for Implementation of the IFRS for SMEs (2009) and in Uganda, communication of key audit matters is a requirement for audits of financial statements of publicly accountable entities.

13.0 CONCLUSION

Audits of financial societies vary in size and complexity and as such, these Guidelines are not intended to be comprehensive. The Guidelines merely provide an overview of the key aspects of the audit of cooperative societies. The auditors are still expected to build more detailed programmes tailored for such audits.