

GUIDELINES ON AUDIT OF NON- GOVERNMENTAL ORGANISATIONS (NGOS)

AUGUST 2024

Plot 42 Bukoto Street, Kololo, P.O. Box 12464, Kampala, UGANDA
Tel: 041-4540125
standards@icpau.co.ug
www.icpau.co.ug

TABLE OF CONTENTS

1.0 INTRODUCTION	5
2.0 BACKGROUND	6
3.0 REGULATORY FRAMEWORK FOR NGOs.....	8
4.0 INSTITUTIONAL FRAMEWORK FOR NGOs	11
5.0 EFFECTIVE AUDITS OF NGOs	12
6.0 ENGAGEMENT LETTERS	13
7.0 PLANNING	14
8.0 CONSIDERATION OF FRAUD RISKS	15
9.0 CONSIDERATION OF LAWS AND REGULATIONS.....	16
10.0 APPLICABILITY OF THE ISA FOR LCES IN AUDITS OF NGOs	17
11.0 MANAGEMENT REPRESENTATION LETTERS.....	17
12.0 REPORTING	18
13.0 CONCLUSION.....	19
APPENDIX.....	20

PURPOSE

These Guidelines are designed to assist accounting firms in the audit of Non-Governmental Organisations (NGOs) in Uganda as they highlight the areas of interest during such audits such as risks related to NGOs, the relevant laws and regulations, appropriately tailored engagement letters, and auditors' reports. These Guidelines aim at providing guidance to assist auditors in fulfilling the objectives of the engagements for audits of NGOs.

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 This has now been repealed and replaced by the Accountants Act Cap. 294.

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

A globally recognized promoter of accountants for sustainable economies.

Mission

To develop and regulate accountants for professional excellence and sustainable impact.

Core Values

- Professional Excellence.
- Accountability.
- Integrity.
- Responsiveness

1.0 INTRODUCTION

The purpose of this Paper is to assist the auditor in developing an approach to the audit of the financial statements of Non-Governmental Organisations as registered and licensed by the National Bureau for Non-Governmental Organisations under the Non-Governmental Act 2016 (hereafter referred to as the Act). S.3 of the Act defines an NGO as a legally constituted organization under the Act, which may be a private voluntary grouping of individuals or associations established to provide voluntary services to the community or any part, but not for profit or commercial purposes. NGOs are typically voluntary groups or institutions with a social mission, which are usually funded by donations and are run primarily by volunteers.

NGOs are great players in any country's social, economic, political, and intellectual development as NGO activities help to mobilize, sensitize, consult and aggregate citizen interest and action. NGOs can fulfill these roles at three different levels namely: at agenda setting; at policy development; and at policy implementation, monitoring, evaluation and ensuring transparency and accountability in public office. NGOs, as non-state actors are, therefore, potent and legitimate partners to governments in nation-building.

This Guidance paper has been prepared by the Institute of Certified Public Accountants of Uganda (ICPAU) in consultation with the National Bureau for NGOs.

The paper is based on laws and regulations governing the NGO sector in Uganda. These include but are not limited to:

- a) The Constitution
- b) The NGO Act 2016
- c) The NGO Regulations 2017
- d) The NGO (Fees) Regulations 2017
- e) The NGO Guidelines 2019
- f) The NGO Policy 2010
- g) The NGO Inspection and Inspectors Guidelines 2020

While the Paper is based on the requirements of the International Standards on Auditing (ISAs) and the laws and regulations that regulate NGO operations, best practice norms have also been adopted and incorporated under particular areas. We recommend that the Guidelines be used in conjunction with the relevant legislation that regulates the operations of NGOs in Uganda. Auditors will also have to consider the legislation specified in the donor agreements.

2.0 BACKGROUND

NGOs all over the world are recognized as important contributors to social, political, and economic development. The origins of NGO presence in Uganda can be traced back to the 1970s and 1980s when many NGOs came in to fill the gap left by the instability at the time. At that time, the social, economic, and political structure of Uganda was marked by political turmoil and mismanagement of government institutions. The civil unrest during this period left the majority of the population living in extreme poverty, without access to basic needs such as food, shelter, education and medical services. Many people and organizations came together during this time to provide much-needed social and economic services. The movement was started by faith-based organizations, principally large established churches, and subsequently reinforced by international NGOs¹ and lately the Ugandan government itself.

Before 1989, all NGOs in Uganda were registered as limited liability companies and had their directors appointed under the Trustee Creation Law. Meanwhile, the number of NGOs in the country continued to grow, eventually leading to the enactment of Chapter 113 of the NGO Registration Law in 1989, which established the National NGO Board, whose mission was to register all NGOs in the country.

After the conclusion of the work of the NGO Board, several gaps were identified in the supervision of the dynamic and diverse NGOs in the country. There was need for a stronger regulatory framework which was addressed by the enactment of the National NGO Policy 2010. Eventually, the NGO Act 2016 was enacted to repeal the NGO Registration Law and it's the law that forms the backbone of the current regulatory framework for NGOs in Uganda.

Currently, the landscape for NGOs in Uganda is active and diverse, with a range of organizations addressing various social, economic, and environmental issues. The National Bureau for Non-Governmental Organisations, which operates under the Ministry of Internal Affairs, is responsible for regulating, monitoring, and coordinating the activities of NGOs across the country. The Bureau maintains an updated register of all legally recognized NGOs and oversees their operations to ensure compliance with national laws.

¹ S.3 of the Act defines International Organisation as an organisation that has its original incorporation in a country, other than a partner state of the East African Community and is partially or wholly controlled by citizens of one or more countries, other than the citizens of the partner states of the East African Community, and is operating in Uganda under the authority of a permit issued by the Bureau.

2.1 Distinction between NGOs and Not-for-Profit Organisations (NPOs)

Generally, any form of not-for-profit organization incorporated or established under the Act will be considered an NGO. While both NGOs and NPOs often work for the benefit of human welfare and to better society, the biggest distinction between them lies in the scope of work. Many NPOs tend to be affiliated with churches, clubs, and alumni associations with a focus on the improvement of minor but still relevant issues like arts and culture. Meanwhile, NGOs tend to have a broader and internationally driven footprint. They are often associated with causes such as controlling widespread famine and disease and large-scale natural disasters such as floods and landslides.

2.2 Types of Non-Governmental Organisations

According to the Act, there are different types of NGOs in Uganda, ranging from national to international organizations. These include:

a) Indigenous NGO

An Indigenous NGO is one that is wholly controlled by Ugandan citizens, incorporated and registered exclusively within in Uganda by the Uganda Registration Services Bureau (URSB) and the NGO Bureau respectively².

b) Regional NGO

A regional NGO is one having its original incorporation with one of the states of the East African Community and partially or wholly controlled by citizens of one or more partner states in East Africa and which is operating in Uganda under the authority of a permit issued by the Bureau.

c) Continental NGO

A continental NGO refers to an organisation that has its original incorporation in any African country outside the East African Community, is partially or wholly owned by citizens of one or more African countries other than the partner states of the East African Community and is operating in Uganda under the authority of a permit issued by the Bureau.

d) Foreign NGO

A foreign NGO refers to an organization that was incorporated outside Uganda and is controlled by people who are not citizens of Uganda or citizens of the East African Community and operating in Uganda under the authority of a permit issued by the NGO Bureau.

e) International NGO

² The National NGO Policy- Uganda 2010,
https://ngobureau.go.ug/sites/default/files/laws_regulations/2021/04/National%20NGO%20Policy%2C%202010.pdf

This refers to an organisation that has its original incorporation in a country, other than a partner state of the East African Community and is partially or wholly owned by citizens of one or more countries, other than the citizens of the partner states of the East African Community and is operating in Uganda under the authority of a permit issued by the NGO Bureau.

f) Community-Based Organisations (CBOs)

A Community-Based organization is an organization operating at a sub-county level whose major objective is to promote and advance the well-being of the members of the community. CBOs are registered at the district level by the District NGO Monitoring Committees with recommendations from the Sub-County NGO Monitoring Committees.

The categorization of different NGOs is mainly based on the citizenship of persons who are key decision-makers in the organization. This potentially means an organization incorporated in Uganda by non-Ugandans can be considered non- Ugandan.

3.0 REGULATORY FRAMEWORK FOR NGOS

The constitution of Uganda 1995 provides for the fundamental freedoms of Ugandan citizens to engage in peaceful activities aimed at influencing the policies of the government through civic organizations. Freedom of association is similarly enshrined in the Universal Declaration of Human Rights of 1948, of which Uganda is a signatory.

The NGO sector in Uganda is regulated by the NGO Act 2016 (the Act), which repealed and replaced the Non-Governmental Organisations Cap 113. The Act was enacted to provide a conducive and enabling environment for NGOs and to strengthen and promote the capacity of NGOs and government regulatory bodies. The Act also serves to make provision for the corporate status of the National Bureau for Non-Governmental Organisations (hereafter referred to as the NGO Bureau) and to provide for the establishment of District Non-Governmental Organisations Monitoring Committees and Subcounty Non-Governmental Organisations Monitoring Committees.

Registration of NGOs in Uganda is done under Regulation 5 of the NGO Regulations 2017 (hereafter referred to as the Regulations) which requires the Bureau to issue a certificate of registration for all organisations that have complied with the Act and the NGO Regulations, 2017. Some of the requirements for the registration of NGOs include:

- a) A certificate of incorporation issued by the Uganda Registration Services Bureau. NGOs need to be incorporated under the Companies Act 2012 as companies limited by guarantee to be incorporated.
- b) A copy of the organization's constitution; and

- c) Evidence of payment of the prescribed registration fees in the Non-Governmental Organisations (Fees) Regulations 2017.

Upon registration, the Act and Regulations also require NGOs to obtain permits of operation issued by the Bureau. The permits stipulate the:

- a) Name of the organisation;
- b) Operations or objectives of the organisation were formed;
- c) Organisation's geographical area of operation; and
- d) Date of issue and expiry of the permit.

The permits issued by the Bureau are limited to periods not exceeding five years. These permits are subject to renewal by the Bureau within six months before their expiry.

Regulation 30 of the Regulations also requires all NGOs except Community-Based Organisations to submit to the Bureau annual returns at least once every twelve months. The annual returns are supposed to be accompanied by:

- a) Proof of payment of the prescribed fees;
- b) Audited books of accounts;
- c) A copy of an annual report; and
- d) Minutes of the General Assembly or governing body.

In addition to the above, S. 31 of the Regulations also requires NGOs to declare and submit the following information to the Bureau:

- a) Source of funds;
- b) Funds received; and
- c) Estimates of income and expenditure.

Through the requirements of S.55 of the Act, the prescribed fees for the registration and renewal of permits of the NGOs operating in Uganda are further stipulated in the Non-Governmental Organisations (Fees) Regulations 2017.

As per the requirements of S.6 (b) and (d), the Non-Governmental Organisations Guidelines 2019 provide policy guidelines for the effective and efficient monitoring of the operations of NGOs as well as those of the District Non-Governmental Organisations Monitoring Committees (DNMCs), the Subcounty Non-Governmental Organisations Monitoring Committees (SNMCs) and Community-Based Organisations. The policy guidelines can be summarized through the requirement for the NGO Bureau, the DNMCs, and SNMCs to follow the principles of fairness, adherence to due process, respect for dignity and rights, and promotion of civil society in Uganda.

While S.41 of the Act provides for the inspection of NGOs and the appointment of the inspectors of the Bureau and this is further provided for in the Non-Governmental Organisations (Inspections and Conduct of Inspectors) Guidelines 2019. After the issuance of permits to the NGOs, the Non-Governmental Organisations (Inspections and Conduct of Inspectors) Guidelines 2019 provide for the inspection of NGOs to be conducted either as a result of complaints filed to the Bureau or from planned, triggered, or sampling processes of the Bureau as it exercises its mandate of ensuring that the NGOs are compliant with the law.

While the laws and regulations mentioned above address the basic legal and regulatory issues, the National NGO Policy 2010 provides a comprehensive policy to address key issues and challenges at the centre of the relationship between the State and non-State actors in national development. The NGO Policy therefore sets the framework that strengthens the relationship between the NGO sector and the government and seeks to enhance capacities and effectiveness in the areas of service delivery, advocacy and empowerment.

3.1 Other Laws and Regulations

Besides the donor agreements and the provisions of the regulatory framework in Section 3.0, NGOs in Uganda are required to be compliant with the provisions of other Ugandan laws, such as:

a) The Companies Act 2012

In Uganda, NGOs are incorporated as companies limited by guarantee according to the provisions of the Companies Act 2012. This implies that NGOs ought to adhere to the corporate governance requirements in the Companies Act regarding the maintenance of proper records, the conduct of annual general meetings and the submission of annual returns to both the NGO Bureau and the Uganda Registration Services Bureau.

b) Anti-Money Laundering Act 2013

This Act requires NGOs, particularly those receiving foreign funding to adhere to strict financial reporting and anti-money laundering requirements. The Anti-Money Laundering Act 2013 requires that NGOs implement measures to prevent their resources from being used for money laundering or terrorist financing and to submit regular returns to the Financial Intelligence Authority.

c) Income Tax Act

While NGOs in Uganda are generally exempt from tax on their non-profit activities, they are still required to comply with other requirements of the Act in relation to withholding and remittance of income tax on employees' salaries as well as income tax on the commercial activities.

d) The Public Order Management Act 2013

Although not specific to NGOs, this Act significantly impacts NGOs' operations, especially those involved in advocacy, human rights, and political activities. For instance, NGOs must comply with the requirement to obtain police clearance before calling for public gatherings. Any public gatherings held without such clearance will be an indication of non-compliance with this Act.

e) The National Social Security Fund (Amendment) Act 2021

Under S.4(a) of this Act, All NGOs in Uganda, regardless of size or number of employees are required to register as contributing employers and make regular contributions for their employees.

4.0 INSTITUTIONAL FRAMEWORK FOR NGOS

The Act provides for the creation of the NGO Bureau, as the national apex body with the mandate to register, regulate, monitor, inspect, coordinate, and oversee all NGO operations in Uganda. The NGO Bureau is a semi-autonomous body under the Ministry of Internal Affairs that is mandated to register, regulate, monitor, coordinate, and oversee all NGO operations in Uganda. Some of the Bureau's specific functions include:

- Consideration of applications for the issue and renewal of permits for NGOs.
- Provision of advice to the Minister on the policy relating to the operations of NGOs.
- Formulation and issue of policy guidelines for District Non-Governmental Organisations Monitoring Committees and Subcounty Non-Governmental Organisations Monitoring Committees.
- Coordination of the establishment and the functions of the National Non-Governmental Organisations Consultative and Dialogue Platform.

S.20 and 21 of the Act further provide for the establishment of DNMCs and SNMCs in every district and subcounty in Uganda respectively, all working under the oversight of the Bureau. At the district level, the DNMCs exist to handle the registration and operations of CBOs, monitor the activities of SNMCs, advise district councils on matters of registration and monitoring of organisations as well as support the activities of the Bureau at the district level.

At the sub-county level, the SNMCs exist to provide advice to the DNMCs on matters of registration and operations of CBOs, provide policy guidelines to CBOs to enable them to participate in the implementation, monitoring, and evaluation of set programs, provide reports of activities of NGOs in the sub-county to the DNMCs and support the implementation of Bureau guidelines at sub-county level.

4.1 Community-Based Organisations (CBOs)

The Act defines CBOs as organizations operating at a subcounty level and below whose objectives are to promote and advance the wellbeing of members of the community. CBOs are supposed to seek approval and obtain a memorandum of understanding with the Local Government where they intend to operate. Registration and regulation of Community-Based Organisations in Uganda is handled by the District Non- Governmental Monitoring Committee. Upon fulfilment of the applications requirements, these committees issue a certificate of registration and a permit to the Community Based Organisation in line with Sec.15 of the Act.

CBOs are also required by R. 31(3) of the Regulations to declare and submit to the District Non-Governmental Organisations Monitoring Committee of the district where their headquarters are located the following:

- a) Source of funds;
- b) Funds received; and
- c) Estimates of income and expenditure.

Like the other NGOs, CBOs are required under R. 31(2) of the Regulations to declare and submit to the District Technical Planning Committee their annual budgets and work plans every calendar year. R.32 also requires CBOs to submit annual returns to the SNMCs at least once in every twelve months. The annual returns of CBOs are submitted to the Sub-County Non- Governmental Organisations Monitoring Committee once every twelve months. The annual returns are supposed to be accompanied by:

- a) Financial reports;
- b) Copies of annual reports; and
- c) Minutes of the General Assembly or governing board.

5.0 EFFECTIVE AUDITS OF NGOS

The NGO sector currently lacks stipulated financial reporting standards as some organisations have adopted the IFRS and IPSAS financial reporting frameworks or those stipulated in the donor agreements. As such, financial reports for most NGOs tend to be prepared in compliance with donor requirements as the current reporting standards don't always meet the needs of funders and donors. Financial reporting formats vary from donor to donor and from time to time.

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 NGOs. Where no special considerations arise from a particular ISA, no material is included.

6.0 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 NGOs, include:

- a. The nature and scope of the auditor’s reporting responsibilities under the NGO Act 2016, the NGO Regulations 2017, other relevant laws and regulations in Uganda as well as the guidelines and codes issued by the National Bureau for Non-Governmental Organisations and donor agreements (where applicable);
- b. The extent of the auditor’s rights to obtain information and explanations from the management;
- c. 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;
- d. 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; and
- e. 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.

Signed engagement letters should be received by the auditor 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 legislation and donor reporting requirements as well as the most recent auditing standards, being the International Standards on Auditing (ISAs) as

adopted for use in Uganda. Having a signed engagement letter is the only way to ensure that the preconditions for the audit are in existence.

7.0 PLANNING

In line with the requirements of ISA 300 - *Planning an Audit of Financial Statements*, planning activities for audit engagements will vary according to the size and complexity of the NGO, the key engagement team members' previous experience with the NGOs and changes in circumstances that occur during the audit engagement. Auditors must consider the unique environment and operational context of NGOs. The overall audit strategy and audit plan for the audits of NGOs needs to address areas of greater risk in the operations of NGOs such as:

- Difficulties in obtaining sustainable funding: Many NGOs grapple with difficulties in getting sufficient and continuous funding for their operations. Getting donors is a hard task and sometimes dealing with some specific donor's funding conditions is even more challenging.
- Fraudulent tendencies such as inflated expenses or diversion of donor funds through use of fictitious documents.
- Governance challenges: Due to cash constraints, many NGOs don't have a Board to help in the enforcement of good governance systems. This increases chances of mismanagement of funds according to NGO owner interests without adequate levels of accountability.
- Occurrence of business continuity incidents such as outbreak of diseases like Coronavirus 2019 (COVID-19) and Ebola which limit usual operations of the NGOs. The COVID-19 Pandemic greatly reduced funding for most NGOs and many were forced to close.
- Regulatory risks: This relates to risks associated with failure to comply with donor as well as regulatory requirements especially in relation to aspects such as money laundering activities.

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 the NGOs by assessing the risks of material misstatement, at the financial statement and assertion levels, regulatory requirements and the applicable financial reporting framework. The auditors will also need to obtain an understanding of the nature of the business operations of the NGO, including its ownership and governance structures and the way it is structured and financed.

During the planning stage, the auditor should obtain a thorough understanding of the accounting policies and internal controls of the NGOs in accordance with ISA 315

(Revised 2019). Using professional judgment, the auditor shall obtain an understanding of internal controls, which are relevant to the audit. Factors relevant to the auditor's judgment about whether an accounting policy or 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, regulatory and donor requirements

During the process of evaluating internal controls over the authorisation and reporting of transactions, the auditor shall evaluate the existence and effectiveness of controls over key aspects such grant management, cash management and financial reporting. 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.

8.0 CONSIDERATION OF FRAUD RISKS

In line with ISA 240 (Revised) - *The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements*, the auditor will have to obtain reasonable assurance that the financial statements of the NGO as a whole are free from material misstatement, whether caused by fraud or error. This will necessitate maintaining professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud may exist. The auditor should also assess the integrity of management and those charged with governance, considering the potential for management override of controls and recognizing 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 about susceptibility 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 NGOs 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.
- Thorough analysis of expenses for compliance with regulatory requirements, donor agreements and internal policies.

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 related controls, including control activities, relevant to such risks. Audits of NGOs should include consideration of internal controls and IT systems in donor and cash management in the context of fraud risks and the transparency of the NGO's financial reporting.

The auditor shall then have to document significant decisions reached during the discussion regarding the susceptibility of 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.

9.0 CONSIDERATION OF LAWS AND REGULATIONS

The provisions of laws and regulations in Section 3.0 as well as donor agreements (where applicable) generally have a direct effect on the determination of material amounts and disclosures in the financial statements of NGOs. The auditor will have to assess the compliance of the financial statements with the provisions in the donor agreement as well as these laws and regulations.

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 NGO's operations are conducted in accordance with the provisions of donor requirements and the

applicable 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.

If the auditor becomes aware of any instances of non-compliance or suspected non-compliance with laws and regulations, he/she should obtain an understanding of the nature of the act and the 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.

10.0 APPLICABILITY OF THE ISA FOR LCEs IN AUDITS OF NGOs

In 2023, the International Auditing and Assurance Standards Board (IAASB) issued the ISA for Less Complex Entities (LCEs), as a standalone global auditing standard for audits of financial statements of less complex businesses and organizations. The standard, which is effective for audits beginning on or after December 15, 2025 will be applicable for audits of NGOs that do not meet the criteria to be considered public interest entities. According to the revised IFRS for SMEs Implementation Guidelines, an organization as defined by the Companies Act 2012 is considered a public interest entity when on its balance sheet date, it exceeds the limits of two of the following criteria:

- Balance sheet total - one hundred billion Uganda Shillings
- Turnover - fifty billion Uganda Shillings
- Average number of 500 employees during the accounting period.

The implication of the above is that the ISA for LCEs applies for audits of financial statements of NGOs that do not meet the criteria to be considered public interest entities.

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 the performance of the audit, an auditor is expected to make a report. The auditor's report 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 NGO 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 by 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" apply to the auditor's report on financial statements of NGOs.

13.0 CONCLUSION

Audits of NGOs vary in size and complexity based on the organizations' objectives and operations. As such, these Guidelines are not intended to be comprehensive but merely provide an overview of the key aspects of the audit of NGOs. The auditors are still expected to build more detailed programmes tailored for such audits.

APPENDIX

SN	Area of consideration	Expected Tests/Actions
1.	Registration of the Organisations	<p>The auditor should confirm whether the NGO has a:</p> <ul style="list-style-type: none"> ▪ Certificate of incorporation from URSB and a constitution ▪ Certificate of registration from the NGO Bureau. ▪ Valid permit issued by the NGO Bureau
2.	Compliance with laws and regulations	<ul style="list-style-type: none"> • The auditor should confirm whether the NGO; <ul style="list-style-type: none"> a) Regularly submits annual returns to the NGO Bureau and the URSB in line with the Act. b) Has a memorandum of understanding with the local government of the area in which it operates c) Has approval of the DNMC and local area local government to allow its operations. d) Does not engage in any activities that are considered prejudicial to the interests of Uganda and the dignity of Ugandans. e) Is non-partisan and does not engage in politically motivated activities. • The auditor should inspect annual returns submitted by the NGO to the FIA • The auditor should inspect the monthly tax and NSSF returns to confirm compliance with the Income-tax and NSSF Act.
3.	Business Operations	<ul style="list-style-type: none"> • The auditor should confirm that the NGO doesn't directly or indirectly engage in any gainful activities except for those related to its objectives. • The auditor should confirm that the NGO maintains a bank account through which transactions are effected.

		<ul style="list-style-type: none"> • For situations where the NGO sells goods or services to the public for fundraising purposes, the auditor should confirm that the prices of the goods and services conform with prevailing prices of similar goods and services in the open market. • The auditor should confirm that all revenue received by the NGO from the sale of goods and services to the public in excess of the administrative costs incurred in the sale is reinvested in the project or as directed by the NGO.
--	--	--

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

📍PLOT 42/46/48 BUKOTO STREET, KOLOLO, P.O. BOX 12464, KAMPALA, UGANDA

☎ 0414-540125 🌐 www.icpau.co.ug ✉ standards@icpau.co.ug 🐦 @ICPAU1 ⓘ ICPAU 📺 Institute of Certified Public Accountants of Uganda 📺 ICPAU