Promoting Professionalism in Accountancy

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

GUIDELINES FOR AUDITING RETIREMENT BENEFITS SCHEMES

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Table of Contents

Purpose

These Guidelines are designed to assist accounting firms in the audit of Retirement Benefits schemes in Uganda. Retirement Benefits scheme audits can vary in size and complexity, and there is often a public interest element to them. This, combined with the specialist requirements that must be met, increases the risks to auditors when carrying out the audit of a Retirement Benefits scheme. The ICPAU Quality Review (ICPAU QR) team regularly reviews Retirement Benefits scheme audits to ensure that the specialist aspects have been properly addressed and often find that these are not approached in a consistent manner. These Guidelines aim to assist accounting firms in the consideration of particular areas of interest, including developing an understanding of Retirement Benefits scheme related risks; compliance with laws and regulations; appropriately tailored engagement letters; and auditors' reports. These Guidelines provide guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.

A summary of the different categories of Retirement Benefits scheme is included at Appendix 1

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 This has now been repealed and replaced by the Accountants Act, 2013.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

Vision

To be a world class professional accountancy institute.

Mission

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

Core Values

1) Professional Excellence.
2) Integrity.
3) Commitment.
4) Good Governance.
5) Social Responsiveness.

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

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 retirement benefits schemes, with particular focus on those licensed under the Uganda Retirement Benefits Regulatory Authority (URBRA) Act, 2011. Retirement Benefits Schemes are legally binding agreements or arrangements other than a contract for life assurance whether established by a written law or by any other instrument, under which members are entitled to benefits in the form of annuity or a lump sum payable upon retirement, or upon death, termination of service or upon the occurrence of an event specified in the written law, agreement or arrangement.

This Guidance paper has been prepared by the Institute of Certified Public Accountants of Uganda (ICPAU) in consultation with the Uganda Retirement Benefits Authority (URBRA).

The Paper is based on the retirement benefits schemes laws and regulations in effect as at July 2015. These include:

(a) The Uganda Retirement Benefits Authority (URBRA) Act, 2011,
(b) The URBRA Licensing of Trustees Regulations, 2012,
(c) The URBRA Licensing of Fund Managers Regulations, 2012,
(d) The URBRA Licensing of Administrators Regulations, 2012,
(e) The URBRA Licensing of Retirement Benefits Schemes Regulations, 2012,
(f) The URBRA Licensing of Custodians Regulations, 2012 and
(g) The URBRA Investment of Scheme Funds Regulations, 2014,
(h) Relevant rules, guidelines and codes issued by the URBRA and the international accounting and Auditing standards.

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 legislation. The terms used in these Guidelines carry the same meaning as defined in section 1 of the URBRA Act 2011.

2.0 Regulatory background

Retirement schemes in Uganda are required to be licensed under the URBRA Act, 2011. The Uganda Retirement Benefits Regulatory Authority (URBRA), the Authority, assumes the role as the Regulator of Retirement Benefits Schemes (in both the public and private sectors), Custodians, Trustees, Administrators and Fund Managers of Retirement Benefit Schemes in Uganda with effect from 26th September, 2011.

The environment in which a Retirement Benefit Scheme operates is different from that of most commercial enterprises. The auditor would need to be familiar with the regulatory background to Retirement Benefit Schemes, in particular the requirements of the URBRA Act and the General retirement benefits Regulations including but not limited to the Licensing of Trustees, Licensing of Fund Managers, Licensing of Administrators, Licensing of Retirement Benefit Schemes, Licensing of Custodians and the Investment of Scheme funds regulations, the relevant rules, Guidelines and Codes issued by the Authority, as appropriate, and the accounting aspects of their operation before commencing the audit.

The main functions of the Authority are to:

(a) regulate and supervise the establishment, management and operation of retirement benefits schemes in Uganda, in both the public and private sectors ;
(b) license retirement benefits schemes in Uganda;
(c) license custodians, trustees, administrators and fund managers of retirement benefits schemes;
(d) approve an actuary or auditor of any retirement benefit scheme;
(e) protect the interests of members and beneficiaries of retirement benefits schemes including the promotion of transparency and accountability;
(f) improve understanding and promote the development of the retirement benefits sector;
(g) promote the stability and integrity of the financial sector through ensuring stability and security of retirement benefits schemes;
(h) ensure sustainability of the retirement benefits sector with a view to promoting long term capital development;
(i) advise the Minister on all matters relating to the development and operation of the retirement benefits sector;
(j) implement Government policy relating to retirement benefits schemes;
(k) promote public awareness of the retirement benefits sector; and
(l) any other function conferred upon it under the URBRA Act.

3.0 Operation of a Retirement Benefits Scheme

The set up and operation of a retirement benefits scheme involves the input and interaction of different parties:

a) The Sponsor (relevant employer):

The sponsor sets up the scheme (usually as an irrevocable trust), appoints trustees and also identifies beneficiaries of the trust. The sponsor is responsible for making contributions to the scheme on behalf of the members. The sponsor must ensure that his or her obligations under the trust deed, scheme rules and the relevant legislation are properly discharged.

b) Members

Are the ultimate beneficiaries of the scheme and have vested interest in ensuring that the scheme is administered properly. The members also have responsibility of making their contributions to the scheme (for contributory schemes).

c) Trustees

Ultimate guardians and legal owners of the scheme fund and are fully accountable to members. A scheme has both sponsor and member nominated trustees (a minimum of one third is required from either party). The Trustees are responsible for managing and overseeing the operation of a retirement benefits scheme in accordance with the trust deed, scheme rules and legal requirements under the URBRA Act and Regulations made under the Act.

Trustees appoint service providers, which include Administrators, Fund Managers and Custodians, Auditors, Legal Advisors, Actuaries, to ensure proper governance, transparency and accountability. The Trustees have to sign service level agreements with the service providers.

d) Administrator

Handles the day-to-day administrative activities of the scheme, which include the following: Keeping the records of the scheme, producing quarterly and annual accounts for audit, processing receipts and invoices, organizing and arranging for meetings, preparing annual benefit statements, among other duties.

e) Fund Manager

The fund manager is responsible for management of funds and other assets of the retirement benefits scheme for the purpose of investment in accordance with the Act, regulations, the scheme's investment policy and the scheme rules. The fund manager also provides advisory services on the investment of the scheme funds and disseminating information concerning the assets available for investment of scheme funds.

f) Custodian

A custodian holds the funds, assets and investments of the retirement benefits scheme in safe custody for members and their beneficiaries. Receives contribution made to the scheme, releases funds for investment (under instruction of the Trustees), collects dividends and income in relation to investment of the scheme and makes benefit payments to members when due.

g) Auditor

Charged with the duty of giving an independent opinion on the financial position of the scheme.

h) Actuary

Carry out valuation (especially for Defined Benefit Schemes) to review and compare the assets of the Scheme to its liabilities, in order to determine the financial soundness of the Scheme.

While the Trustee is ultimately responsible for the proper operation of a retirement benefit scheme, he/she may choose to delegate some or all of his/her management functions to a third party. Where the Trustee has delegated any function to another party (such as the administration (administrator) or the investment function (fund manager)), best practice requires that the Trustee ensures that there are internal control procedures in place to monitor the activities of service providers. The Trustee must ensure that the service providers have carried out their duties in accordance with the terms and conditions of service as may be specified in the instrument of appointment and the Trustee is notified of any material changes relating to the eligibility of the service providers or material breach of obligations by the service providers.

4.0 How to develop an effective approach to the audit of Retirement Benefits scheme

Whilst Retirement Benefits scheme audit clients can vary in size and nature, many can be small and low risk in comparison to other clients, yet it is crucial that they are allocated sufficient time and resource and that they are approached with the same rigour and professional skepticism as other audits.

4.1 Audit requirements

The auditor ensures 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. In particular the International Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans" which deals with accounting and reporting by the plan to all participants as a group.

4.2 Commentary on the application of International Standards on Auditing (ISAs)

4.2.1 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 retirement schemes. Where no special considerations arise from a particular ISA, no material is included.

5.0 Engagement letters

The auditor issues engagement letters in accordance with the principles and requirements of ISA 210 "Agreeing the Terms of Audit Engagements". Specific issues which the auditor would address in engagement letters applicable to retirement schemes include:

(a) the nature and scope of the auditor's reporting responsibilities under the URBRA Act, the retirement benefits regulations, the relevant Rules, guidelines and codes issued by the Authority;
(b) the extent of the auditor's rights to obtain information and explanations from the relevant employer and/or persons to whom the Trustee has delegated some or all of his duties;
(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; and

(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 scheme.

(e) agreement of management that it acknowledges and understands its responsibility:

    i. For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
    ii. 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
    iii. To provide the auditor with:
        - Access to all information of which management is aware that is relevant to the preparation of the financial statements;
        - Additional information that the auditor may request from management for the purpose of the audit; and
        - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Signed engagement letters should be received prior to the commencement of the audit engagement, and the following should be considered when addressing this ISA 210 requirement:

At first appointment: the trustees or managers of a scheme forward a Notice of Appointment to the auditors specifying:

- The date from which the appointment is to take effect;
- To whom the auditors are to report; and
- From whom the auditors will take instructions;

The auditors must acknowledge the Notice of Appointment within one month of its date of receipt. This should be done after the accounting firm has conducted its own client acceptance procedures;

The engagement letter should refer to the most up to date retirement benefits schemes' legislation. The correct references are to the 'the URBRA Act and or the other relevant regulations made under the Act; and

The letter should refer to the most recent auditing standards, being the International Standards on Auditing (ISAs) as adopted for use in Uganda;

6.0 Planning

The auditor plans the audit in accordance with ISA 300 "Planning an Audit of Financial Statements". Consideration of specific matters related to retirement benefits schemes may also include:

(a) whether the Trustee has a sound understanding of the legislation and rules governing the scheme as set out under the trust deed, the scheme rules and/or the URBRA Act, the retirement benefits regulations, the relevant rules, guidelines and codes issued by the Authority;

(b) whether the Trustee has the necessary training and skills required to maintain the records of the scheme (both financial and non-financial), given that the Trustee may have to maintain membership records, make investment decisions and administer benefit payments; and

(c) whether there is close involvement of the employer in a "directly invested scheme". Direct investment is a term used to describe a method of investment for a scheme by which securities are held directly in the name of the trustees.

The operation of a retirement benefits scheme can involve complex technical issues and calculations in areas in which the auditor cannot be expected to be expert. During the course of the audit it may be necessary for the auditor to obtain confirmations from other professional advisers such as actuaries, fund managers and solicitors. The audit planning would therefore include details of the advisers and the extent to which reliance would be placed on information provided by them.

7.0 Understanding the Retirement Benefits Scheme and its risks

Obtaining an understanding of an audit client is the key requirement of ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment". Listed below are **<u>some</u>** of the areas that should be considered. Firms are advised to utilise this list in additional to any other risks, to ensure sufficient understanding is obtained of:

a. the audit and accounts requirements;
b. the nature of the Scheme and documentation;
c. Scheme governance including separation of roles as per the URBRA Act.
d. the supporting and participating employers;
e. Scheme administration;
f. Investments of the scheme;
g. Other advisors of the scheme;
h. Custody of the scheme funds and other assets;
i. reporting responsibilities;
j. the assessment of controls over key risks;
k. the accounting systems and controls, and adequacy of books and records;
l. risk assessments at the assertion level;
m. the audit response to risks; and
n. Disclosures to members.

Some of the most effective planning that ICPAU desires from accounting firms is where a detailed audit planning memorandum has been prepared. Such a document helps to ensure all the key areas are covered and provides useful, informative, commentary on the audit approach and significant risks identified. If an audit team decides to prepare such a document, it is important to ensure that this has not merely been carried forward from the previous year, but that additional thought and consideration is given in the current year.

7.1 Internal controls

The auditor considers internal controls in accordance with ISA 315.

The Trustee has a duty to ensure adequate accounting records and systems to enable his duties to be carried out including discharging his responsibilities for investment decisions and safeguarding the scheme's assets.

The nature and extent of a scheme's accounting systems, procedures and internal controls depend mainly upon the size of the scheme, the extent to which the Trustee delegates the administration of the scheme to third parties and the nature of its investments.

Where a Trustee delegates the management of a significant part of the scheme's operations to a Service provider, the auditor considers the requirements of ISA 402 "Audit Considerations Relating to an Entity Using a Service Organization". In particular, the auditor would need to assess the systems and controls the Trustee have in place to monitor and control the activities of the third party, and those of the third party itself. This may involve corresponding with the auditor of the third party.

Where some or all of the scheme is administered in-house, the size of the scheme and the size of the employer's operations determine the scope for developing internal controls and therefore whether formalized procedures and internal controls for certain transactions exist. For example, in a small scheme the infrequency of particular types of transactions such as benefits payable on the death in service of members, may result in no formal control being in place. It may also be difficult for the Trustee to achieve a proper segregation of duties. In such instances, it is unlikely that the auditor is able to place reliance on those internal controls.

7.2 Computer systems

The auditor considers the requirements of ISA 315 and also to the matters set out in the paragraph below.

The processing and recording of a large number of scheme member records and related transactions frequently involve the use of computer systems. Typical examples of scheme administration functions that are performed by computerized procedures may include but not limited to:

(a) Calculation of contributions receivable;
(b) Calculation of benefits payments and vested benefits;
(c) Generation of computer cheques for benefit payments;
(d) Allocation of investment income and expenses; and
(e) Scheme accounting function.

8.0 Communication with the client and consideration of fraud risks

The requirements in ISA 240 and ISA 260 are the same as those in the audit of trading companies.

However, it can sometimes be more difficult to undertake direct communication with the scheme's trustees. As a result, it is evident that there is always communication with those charged with the day-to-day administration of the scheme, but not necessarily with trustees or those charged with governance. Accounting firms are advised to ensure that adequate planning is carried out to meet the requirements and that there is evidence of communication with the trustees, including discussions on fraud risks and controls.

Some Trustees of in-house schemes may operate their relationships with the auditor through individuals such as a professional Trustee or the secretary to the Trustees, or there may be a tiered approach to communication, with the detailed matters being communicated to an audit committee (or similar group) and less detailed matters being communicated with the Trustee. It may therefore be difficult to ensure that oral communication is transmitted to all trustees and written communication may also be necessary. However, which set up is available at any one scheme; the auditor needs to consider guidance regarding communications.

9.0 Consideration of service organisations and reliance on an expert

Retirement Benefits Schemes and their Trustees will often use service organisations such as auditors, administrators, custodians, fund managers actuaries among others. ISA 402 'Audit Considerations Relating to an Entity Using a Service Organisation is clear that there should be consideration of the controls within the service organisation, the terms of the arrangement with the Retirement Benefits Scheme, the supervision and control by the Trustees, and the consideration of the impact of this on audit risk.

Similarly, it is common for auditors of Retirement Benefits Schemes audit clients to require the involvement of experts, or to rely on the work of a management expert. These can commonly be in relation to investment and property valuations and investment management. ISA 500 and ISA 620 'Using the Work of Auditor's Expert state that there should be documented consideration of the experts' professional competence, qualifications, experience or objectivity. Further, accounting firms are required to document whether they consider the scope of the expert's work to be adequate; or how they have evaluated the appropriateness of the expert's work.

Auditors must ensure that these areas are considered at the planning stage and that any experts or service organisation are identified at this time. It is not sufficient to identify them during the course of the audit, as comprehensive planning should identify that experts will need to be involved and demonstrate the impact on the firm's assessment of risk and planned work.

9.1 Review of actuarial information

General

The requirement for actuarial reviews only applies to defined benefit schemes. Under a defined contribution scheme, the vested benefit (the member's contributions and a proportion of the employer's contributions plus the net investment return on both) is more readily identifiable from the scheme's accounting records.

Without actuarially determined disclosures in the financial statements of a defined benefit scheme, the financial statements only give limited information about the state of affairs of the scheme. Actuarial reviews are necessary to assess, amongst other things, the ability of the scheme to pay the defined benefits in the future.

The URBRA Act (section 71) requires an actuarial review to be performed at least once in every three years and the report of actuarial valuation be submitted to the Authority within three months after the date at which the review takes place. However, unlike in Uganda, in other jurisdictions, schemes where solvency is an issue require a review every year. The primary purpose of this review is to monitor the solvency and funding of the scheme.

Accordingly, the actuarial valuation report arising from this review is required by the URBRA (Licensing of Retirement Benefits Schemes), (schedule 8) to include the following statements:

(a) The dates on which the valuation and the previous valuation were conducted.
(b) The objectives of the actuarial valuation.
(c) A summary of the benefits and contribution rates used in the actuarial valuation with any comments on the benefit structure and design, if appropriate.
(d) The number of persons in respect of whom liabilities have been calculated, subdivided into active members, deferred pensioners and vested pensioners with their corresponding annual pensionable, emoluments, annual deferred pensions and annual vested pensions.
(e) A consolidated income statement showing cash flows since previous actuarial valuation.
(f) A description of
    - the classes of assets held by the scheme unless such a breakdown of assets is not possible;
    - The value of the net assets of the scheme after deducting current liabilities and any liability arising from the pledge or any other encumbrance of the assets, of the fund,
    - The actuarial value of these net assets, for the purposes of a comparison with the scheme's accrued liabilities;
(g) A description of the basis employed by the actuary in calculating the actuarial value of each of the various classes of assets.
(h) The accrued liabilities of the scheme, which shall include:
    - The actuarial liability in respect of past service benefits of active members, with due allowance for future salary increase and increase in benefits;
    - Actuarial liabilities in respect of benefits payable to current and deferred pensioners with due allowance for any increases;

- Any other accrued actuarial liability:

(i) A description of the basis employed in calculating the actuarial value of the accrued liabilities.
(j) A comparison of the actuarial value of assets with the accrued liabilities showing the resultant surplus or deficiency and the percentage of assets to liabilities.
(k) In the case of an actuarial deficiency or surplus:
    - the causes or probable causes thereof,
    - the measures taken or recommended to eliminate any deficiency;
    - the measures taken or recommended to normalize any surplus.
(l) A description of all relevant developments and an analysis of the financial progress of the scheme since the previous statutory actuarial valuation.
(m) A comparison of recommended future contribution rates with those obtaining immediately before the valuation and adequacy of the sponsor's contribution rate and the effects thereof
(n) Any comments on the suitability of the scheme fund investments in relation to the liabilities.
(o) Such other particulars as the Actuary may deem relevant for the purposes of these regulations.
(p) The Actuary's qualifications and the capacity in which he has signed the report.

In the event that a qualified actuarial report is issued, the auditor is advised to study the information given by the actuary.

In addition to the requirements set out above, actuarial reports can provide an assessment of a defined benefit scheme's progress in achieving its objective of providing members' future benefits. The results of an actuarial review are used to determine the appropriate contribution level and to indicate any surplus or deficiency in the funding of the retirement benefits scheme.

A practical way of showing the level of funding of a scheme is for the actuary to indicate the trend in the values of the following from the latest valuation and from previous valuations, if they are available:
(a) the amount of aggregate vested liabilities; and
(b) the amount of aggregate past service liabilities.

The actuary arrives at the actuarial valuation by taking the discounted value of future benefits that are expected to arise in the scheme in respect of members, and comparing this with the value of the scheme's assets, and the discounted value of future contributions. The actuary would also compare the scheme's assets with past service liabilities and vested liabilities. In doing so the actuary makes a number of assumptions, including earnings rate, inflation, salary increases and staff turnover rates among others.

9.2 The auditor's responsibilities

In considering the work of the actuary as audit evidence, the auditor considers the requirements of ISA 500 "Audit Evidence" on information produced by a management expert.

As set out in paragraph 8 of ISA 500, if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor is required, to the extent necessary to perform the following procedures:

a. Evaluate the competence, capabilities and objectivity of that expert;
b. Obtain an understanding of the work of that expert; and
c. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Further guidance ie set out in paragraphs A37 to A48 of ISA 500. Additional specific considerations which apply in the audit of retirement benefits schemes are set out below in paragraphs that follow.

In evaluating the work of an actuary, the auditor is required to consider the following:

a. the source data used;
b. the assumptions and methods used and their consistency; and
c. the results of the expert's work in the context of the auditor's overall knowledge.

The auditor would need to be satisfied as to the accuracy and reasonableness of the source data. The source data used is provided by the Trustee and includes information on salaries, date of birth of members, date of joining the employer, date of joining the scheme, contribution rates, accumulation of member and employer contributions, benefit multiples and investments held among others.

The assumptions used comprise both ones which pertain to the scheme and the industry in which the scheme operates and ones which are used by actuaries generally, such as inflation and interest rates.

The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the actuary. The auditor does not have the same expertise and, therefore, cannot always challenge the actuary's assumptions and methods. However, the auditor seeks to obtain an understanding of the assumptions and methods used and to consider whether they are appropriate and reasonable, based on the auditor's knowledge of the business and the results of other audit procedures.

The auditor would also consider the consistency of the actuary's assumptions and the funding method used to calculate the members' future benefits. By changing the assumptions and funding method, the valuation changes and this affects the surplus or deficiency in the fund and the required contribution rates. Any such changes in assumptions or funding method should be explained by the actuary. The auditor would also give special attention to the consistency of the margin between the projected returns of the scheme and the projected salary rises. If the results of the actuary's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditor would seek to resolve the matter. This may involve discussions with the Trustee and the actuary, applying additional procedures, including possibly engaging another actuary.

9.3 Deficiency of assets

It is not uncommon for some of these calculations to show a deficiency of assets to meet the amount of members' benefits calculated. The auditor would review the actuary's recommendations to determine whether the relevant employer has made contributions to the scheme in accordance with such recommendations. These recommendations may include an increase in the amount of contributions or an extension of the period over which contributions are made.

The auditor would need to determine whether a deficiency may imply an inability of the scheme to meet its obligations as and when they fall due. Furthermore, in any year in which an actuarial report has not been prepared, the auditor would consider whether economic circumstances have eroded the value of the investments, which might also imply that the scheme may not be able to meet its obligations as and when they fall due. Such uncertainties may give rise to additional disclosure in the financial statements and/or the need to include an explanatory paragraph dealing with a fundamental uncertainty or a qualification in the auditor's report.

10.0 Consideration of laws and regulations

In accordance with ISA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor considers the impact of the relevant requirements of the trust deed or scheme rules, the URBRA Act, and the General retirement benefits Regulations including but not limited to the Licensing of Trustees, Licensing of fund managers, Licensing of Administrators, Licensing of Retirement Benefit Schemes, Licensing of Custodians, the URBRA (Financial Reporting and Disclosure Requirements) and the Investment of Scheme Funds regulations, the relevant Rules, Guidelines and Codes issued by the Authority on their audit. As stated in ISA 250, it is the responsibility of management, with the oversight of 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. The requirements in ISA 250 are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The auditor needs to note that the URBRA Act under section 93 mandates the Authority to issue guidelines for the better carrying out of its object and functions under the same Act. As such an auditor is expected to keep abreast with any such guidelines as may be issued by the Authority from time to time.

11.0 Trustees' Report

The Trustees' report does not form part of the audited financial statements. However, as they will form part of the same document, the auditor refers to ISA 720 "The Auditor's Responsibilities Relating to other Information in Documents Containing Audited Financial Statements" concerning the auditor's responsibilities in this area.

11.1 Specific audit areas

11.1.1 Investments

General

The Trustee is responsible for the process of investing the scheme assets. The Trustee must therefore ensure that investments conform to the requirements of the scheme's rules and the investment policy statement; restrictions imposed by the URBRA Act, general retirement benefits Regulations, the relevant Rules, Guidelines and Codes issued by the Authority and the general duties and obligations established under trust law.

Most schemes allow Trustees a wide range of investment choice. There are however, some restrictions imposed by the URBRA Act. The URBRA Act and the URBRA (Investments of Scheme Funds) Regulations, 2014, give powers to the Authority from time to time to impose restrictions on investment in particular activities.

Under section 68 of the URBRA Act, the funds of a retirement benefits scheme cannot be —

(a) be used for speculative investments;
(b) lent to any person, except through securities sold on the open market;
(c) invested with a bank, non-banking financial institution, insurance company, building society or other institution with a view to securing loans or mortgages, at a preferential rate of interest or for any other consideration to the trustee, custodian, administrator or fund manager of the retirement benefits scheme;
(d) used to make direct or indirect loans to any person;
(e) be used as security for loans;
(f) invested outside East Africa; or
(g) invested contrary to any guidelines prescribed for that purpose.

The URBRA Act further provides that notwithstanding subsection 68(1), a prescribed proportion of the benefits accruing to a member in a retirement benefits scheme may be assigned and used by the member to—

- secure a mortgage or a loan for purchasing a residential house from any institution and on such terms as may be prescribed in regulations made under the Act;
- pay for medical treatment in respect of the member, on recommendation of the Uganda medical Board.

And that the Authority may suspend or disqualify a trustee, custodian, administrator or fund manager of a retirement benefits scheme who contravenes this provision from participating in the management, custody or administration of the funds of the retirement benefits scheme.

The audit of investment balances in a Retirement Benefit Scheme is essentially no different to the audit of investment balances in any other organisation, except where the Trustee chooses to delegate the management of the investment portfolio to a third party. The audit implications of this situation are discussed above. The auditor is therefore expected to remain updated about any such restrictions in particular investment activities.

Audit objectives

The auditor would consider whether:

a. the investments of a scheme exist and are owned by the scheme;
b. all investments of the scheme have been accurately and completely recorded in the books of the scheme;
c. the investment policy of the scheme is in accordance with the terms of the scheme rules/trust deed, the URBRA Act (where applicable), the General retirement benefits Regulations (where applicable), the relevant rules, guidelines and codes issued by the Authority;
d. all investments are appropriately valued; and
e. all investment balances are appropriately classified and disclosed in the financial statements of the scheme.

The auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report whether or not the requirements of section 67 and 68 of the URBRA Act and provisions of the URBRA Investments of Schemes funds regulations are complied with and whether or not the investments exist, are completely recorded and are correctly valued.

Potential audit work may include a review of the controls in place to monitor investment/custodian arrangements, obtaining third party confirmations, a review of investment reconciliations, tests of valuation of listed investments against third party sources and a review of service organisation controls reports to identify any control weaknesses.

Understanding the Economic Environment

The Trustees should understand how these issues affect their investment managers and the potential impact on the portfolio. Auditors may be required to perform additional work around the valuation of investments, including review of underlying investments and movements in value between the year-end and the signing date.

The importance of recording audit evidence properly cannot be stressed enough. Accounting firms can help themselves by using a standard format for their working papers, which encourages staff to record why they have carried out a particular audit test, what work they have actually performed, the results achieved and conclusions drawn therein.

ISA 230 Audit Documentation, specifically states that:
'The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:
(a) The nature, timing, and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;
(b) The results of the audit procedures and the audit evidence obtained; and
(c) Significant matters arising during the audit and the conclusions reached thereon.'

11.1.2 Contributions

General

There are principally two types of contributions, namely:

(a) employer financed; and
(b) member financed.

These two categories can be further subdivided. For example, the employer contribution may take the form of a contribution based on a specified rate (by the trust deed and Scheme rules or by the actuary), and member contributions may include contribution based on a specified rate, additional voluntary contribution or amounts rolled over from other schemes.

The Trustee's primary responsibility for contributions is to ensure that all contributions due have been paid over to the scheme on a timely basis, and have been recorded to the members' benefit completely and accurately. Specific functions of the Trustee for contributions are included in the URBRA Act.

In fulfilling this responsibility, the Trustee must firstly ensure that all new members have been properly admitted to the scheme in accordance with the provisions of the governing rules or trust deed, members who have ceased their membership during the year have been appropriately removed from the membership register, and that details relating to all continuing members are properly carried forward in the scheme records. The Trustee must ensure that all membership records are accurate.

The Trustee is required to ensure that both employer and member contributions are made in accordance with the governing rules or other relevant agreements and as recommended by the actuary (in the case of a defined benefit scheme) and such contributions are made on a timely basis.

Audit objectives

The auditor would consider whether:

(a) all contributions receivable from, or on behalf of, eligible members have been received and have been recorded in the correct period; and
(b) contributions received have been made in accordance with the governing rules or other relevant agreements and, for defined benefit schemes, the recommendations of the actuary.

Specific risk areas

Potential audit work may include a review and validation of the controls operated by the administration team, detailed testing of payrolls and timeliness via a review of cashbook/bank.

The main risks are those of completeness and accuracy. Completeness involves ensuring that all contributions are recorded, either as received or receivable. Accurate calculation is particularly relevant to defined contribution schemes where employer's contributions are based on a percentage of a member's salary. The auditor would also consider whether contributions receivable are recoverable, particularly if the employer has a significant level of contributions owing at the financial year end of the scheme. The risk of non-remittance of contributions for Defined Contribution Schemes should also be considered.

The work on contributions affects the determination of planning materiality, as often this work involves additional focus on the more detailed aspects of the transactions than perhaps in the rest of the audit (such as payment dates and amounts).

11.1.3 Benefits

General

Benefits may include age benefits, survivor's benefits, invalidity benefits medical and maternity benefit, unemployment benefit, education benefit, home ownership benefit, funeral benefit, or any other benefit as may be prescribed from time to time. Benefits are normally paid by way of a lump sum, pension or annuity arrangements.

Where a scheme is a defined contribution scheme, the benefit paid will equal the members' vested benefit in the scheme which is the accumulation of the members' contributions plus the appropriate proportion of the employer's contributions and the investment return on both.

Where the scheme is a defined benefit scheme, the benefit paid is determined by the governing rules and is generally calculated on the basis of length of service and the members' salary, which may be based on current salary, an average salary or another method as determined by the scheme rules.

The Trustee is primarily responsible for ensuring that all benefit payments which should have been made are correctly paid to bona fide members in accordance with the governing rules or the URBRA Act, the General retirement benefits Regulations, the relevant rules, guidelines and codes issued by the Authority.

In many cases, where an employee leaves an in-house benefit scheme, part or all of the employer's contributions plus the investment returns thereon in respect of that member may not be paid to the member. These forfeitures may be applied (depending on the vesting scale and the rules of the scheme) in reducing the contributions of the employer, retained in the scheme for the benefit of members, or returned to the employer. The same rules will apply to voluntary contributions made by an employer to a retirement benefit scheme.

Audit objectives

The auditor would consider whether:

(a) benefits paid and payable are bona fide, have been correctly calculated and have been recorded in the correct period; and
(b) benefits have been paid in accordance with the scheme rules/trust deed and the URBRA Act, the General retirement benefits Regulations, the relevant Rules, guidelines and codes issued by the Authority.
(c) Late payment of benefits attracts interest where provided for in the scheme rules.

Specific risk areas

The principal audit risks in relation to benefits are those of completeness and accuracy. Completeness involves ensuring that all benefits are recorded either as paid or payable. Calculation of benefits paid is relevant, particularly with respect to defined benefit schemes, and benefits are paid to people who are not entitled to receive them.

Potential audit work may include an analytical review of pensioner payroll, a review of transactions to member files, consideration of authorization procedures and calculations, a review of bulk transfer agreements and a review of the results of any existence exercise.

12.0 Prescribed capital adequacy requirements

Section 3 of the URBRA (Licensing of Retirement Benefits Schemes) Regulations, 2012 requires a retirement benefits scheme which receives or intends to receive mandatory contributions to maintain a minimum deposit of not less than one million, two hundred and fifty thousand currency points (Ushs. 25 billion) with the Central Bank or a financial institution approved by the Authority.

Procedures performed by the auditor

For the purposes of the auditor's report on the capital adequacy requirements of a retirement benefits scheme, the auditor will be required to design substantive procedures to enable the auditor to report whether or not the capital adequacy requirements have been complied with.

Such substantive procedures may include; obtaining evidence to support the amount of minimum deposit made to the Central Bank or any other approved financial institution.

13.0 Management representation letters

The key factor to address here is to obtain a signed letter of representation before the audit report is signed. In addition, written representations should not be relied upon where substantive evidence should have been available. As a basic minimum the letter may include representations covering:

- the type and nature of the pension scheme;
- that scheme rules and documentation are up to date;
- disclosure of all correspondence with the regulator; and
- material accounting estimates.

14.0 The auditor's reports

After performance of the audit, an auditor is expected to make a report. The auditor's report, addressed to the trustee, in relation to the financial statements of a scheme and a financial period of it to state whether or not in the auditor's opinion:

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

(b) the financial statements have been properly prepared, in all material respects, in accordance with the URBRA Act and Regulations thereof; and
(c) whether or not proper accounting and other records have been kept during the relevant financial period in respect of the constituent funds of the scheme, the scheme assets and all financial transactions entered into in relation to the scheme; and
(d) the requirements specified in the URBRA Act respect to restricted investment practices.

In addition, ISAs require an auditor to state whether the auditor has obtained all the information and explanations that the auditor has required.

The principles set out in ISA 700 "Forming an Opinion and Reporting on Financial Statements" are applicable to the auditor's report on retirement benefits scheme financial statements. For Occupational related schemes (for example in house retirement benefits schemes) the auditor's reports are addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's reports would be addressed to the administrator. For Retirement Benefit Schemes and Unified Public Service Pension the auditor's reports are addressed to the trustee.

14.1 Summarized information for scheme members

All schemes are required under the financial and disclosure regulations to produce summarized financial information for distribution to members which summarizes the key financial highlights from the audited financial statements.

The auditor has no control over the issue of such abbreviated financial information, particularly, when the auditor is not asked to report on it. However, if the auditor becomes aware that such information has been or will be issued, the auditor would take steps towards ensuring that members are not given the impression that such abbreviated financial information itself constitutes audited financial statements. If the auditor has any concerns in this respect, the auditor would communicate them to the Trustee and the auditor would consider the continuing appointment in the light of the trustee's response.

If the auditor is asked to provide a report, the same concerns apply, and the auditor would make clear in the auditor's report the scope of the work the auditor has carried out, in particular any areas the auditor has not examined. The auditor would ensure that the report specifically refers to the fact that the financial information does not give a true and fair view and would indicate whether the opinion on the full financial statements had been qualified or not. This would relate to the audited accounts required to be exhibited, throughout the year at a retirement benefits scheme’s offices, and the published audited annual financial statements in the mass media of wide circulation.

15.0 Trustee to review service providers' reports

In accordance with the URBRA Act, the trustee requires each service provider appointed or engaged by the trustee to report any material breach of obligations or material changes to the trustee.

On an annual basis, the service provider is required to submit to the Trustee, trust reports.

The auditor is therefore expected to review and report whether or not, in the auditor's normal course of duties, the auditor has become aware of:

(a) any failure of the service provider to comply with the service provider's obligations under the contract of appointment or engagement entered into between the trustee and the service provider; and
(b) any false declaration made by the service provider to the trustee or any other person, and if so, give particulars of the failure or false declaration.

15.1 Trustee's report on control objectives and internal control measures

15.1.1 Requirements of the Trustee

Being managers of public interest entities, trustees of retirement benefits schemes as a best practice are required to maintain an appropriate internal control framework with respect to the management and administration of schemes. The URBRA Act (section 66(2)), requires Trustees to submit an annual report to the Authority within four months after the end of each year. By default, the annual report would contain a report on the control objectives and internal control measures (mainly referred to as the Trustee's Report) maintained by the trustee.

A Trustee's Report would normally set out:

(a) a statement of responsibility;
(b) the trustee's control objectives in relation to the safeguarding of scheme assets, the recording of transactions and the compliance with the applicable Regulations;
(c) details of each of the specific control procedures and measures designed to achieve the control objectives;
(d) details of any significant changes to the control objectives, procedures and measures during the period;
(e) details of any exceptions to the control objectives, procedures and measures during the period; and
(f) an assertion by the trustee that it has reviewed the control objectives, and the control procedures and measures in operation.

In order that the statement by the trustee is fairly described, the trustee should include in the Trustee's Report a description of any material weaknesses identified which have, in its view, affected whether control procedures and measures are in place, or reduced the effectiveness, or prevented the operation, of control procedures and measures, if those weaknesses were not themselves identified and rectified within an appropriate time.

15.1.2 Requirements of the auditor

ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, requires that where supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. Where this is not the case, then the auditor is required to ask management to change how the unaudited supplementary information is presented.

As a best practice in the retirement benefits sector, several jurisdictions require the Trustee's Report on internal controls to be reviewed by the auditor, and the auditor is required to report to the trustee:

(a) whether or not appropriate control objectives were established and maintained for the scheme during the period to which the report relates;
(b) if appropriate control objectives were so established and maintained, whether or not effective internal control measures were established and maintained for the purpose of achieving those objectives; and
(c) whether or not those internal control measures (if any) were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented.

The auditor further required to state:

(a) whether or not, during the course of the review of the Trustee's Report, the auditor became aware of any shortcomings in the internal control measures that could materially affect the operation of the scheme (including its financial position) or the financial interests of scheme members; and
(b) details of any such shortcomings the auditor became aware of.

15.1.3 Requirements of both the Trustee and auditor

Both the Trustee's Report and the auditor's report on a review thereof as discussed above would form part of the annual report submitted to the Authority in accordance with section 66(2) of the URBRA Act. In practice the requirements in regard to the trustee’s report would mean that the trustee will be required to prepare a draft Trustee's Report in time for the auditor to review and attach the auditor's report thereto.

It should be recognized that the control objectives and procedures may differ from trustee to trustee depending on the trustee's own assessment and tolerance of the risk level in the organization, its specific operating system, size of the business, types of products on offer etc.

Therefore, any Guidelines on Internal Control Report for each Registered Scheme may not be intended to prescribe specific control systems for all schemes and the measures described may not be intended to be exhaustive but, in many instances, alternative control procedures and measures may be equally appropriate and acceptable.

Even though trustees are not required to report on all the control objectives and measures applicable to their schemes, trustees are expected to ensure that a proper system of internal controls is in place for all aspects of their schemes' operations and are expected to ensure that as a minimum requirement key best practices are complied with.

The auditor is expected to report on the design and effectiveness of the internal controls and is therefore not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period.

It is recognized that the auditor of the Trustee may be different from the auditor of the scheme. It is also possible that different auditors may be appointed to each scheme managed by the same Trustee.

If the Trustee's Report relates to only one scheme, then the Trustee's Report is submitted to the auditor of the scheme for review.

15.2 Procedures performed by the auditor

In planning and performing this work, the auditor should refer to the principles in the ISAE 3000 applicable to assurance engagements.

15.2.1 Terms of engagement

In agreeing the terms of the engagement, the auditor would exclude liability in respect of any loss or damage caused by, or arising from, fraudulent acts, misrepresentation or willful default on the part of the Trustee and their agents. The auditor would also exclude liability to third parties. They would normally obtain a limitation in aggregate of the auditor's liability. It should be noted that it is not possible to limit liability in relation to professional negligence of the auditor.

15.2.2 Planning the engagement

In addition to the requirements contained in ISAE 3000, the following would need to be considered by the auditor:

(a) the structure with respect to a scheme operation may be different for each scheme. The auditor would need to understand the structure adopted in the administration and management of the scheme, i.e., who is and what are the custodian's responsibilities, who is and what are the trustee's responsibilities etc;
(b) the terms of the contract between the trustee and service providers such as the custodian, third party administrator and the investment manager of the scheme;
(c) the nature of services provided by the service providers and the extent to which the trustee's internal control measures interact with those of the service providers;
(d) the methods adopted by the trustee to evaluate the appropriateness of the specified control objectives of the scheme and the effectiveness of the major procedures and internal control measures for achieving those objectives;
(e) the type and extent of evidence supporting the trustee's evaluation/assertion about the effectiveness of the internal control procedures and measures;
(f) the nature of control procedures relevant to the responsibility of the trustee in ensuring that a proper system of internal controls is in place for all aspects of the scheme's operation; and
(g) matters affecting the industry, such as financial reporting practices, economic conditions, amendments to ordinances and regulations and technology changes.

15.2.3 Situations where part of the trustee's responsibilities are outsourced to a third party

The ultimate responsibility with respect to the implementation of, and ongoing compliance with, the necessary internal controls framework rests with the trustee. Where a trustee has delegated certain of its functions to another service provider, the auditor needs to consider the impact of this on the overall engagement with reference to HKSA 402 "Audit Considerations Relating to an Entity Using a Service Organization".

15.2.4 Evaluating design effectiveness

To evaluate the effectiveness of control procedures, the auditor would obtain a general understanding of the control environment and information system to identify matters that are likely to have a significant impact on the effectiveness of particular control procedures and measures.

Procedures to evaluate the effectiveness of a specific control are concerned with whether that control is suitably designed to comply with best practice control measures. Such procedures will vary depending upon the nature of the specific control, the nature of the trustee's documentation of the specific control, and the complexity and sophistication of the trustee's operations and systems.

The auditor would evaluate the effectiveness of the control procedures based on the identified control objective. This evaluation would be based on whether the control procedures have been suitably designed to reduce to an acceptably low level the risks that threaten achievement of the objectives relevant to the area of activity. Where the auditor is unable to identify control procedures designed to provide reasonable assurance about the reduction of risk, this would constitute a weakness in relation to design effectiveness.

The auditor would focus on the significance of controls in achieving the control objectives rather than on specific controls in isolation. The absence or inadequacy of a control designed to achieve specific criteria may not be a deficiency if other controls specifically address the same criteria.

15.2.5 Testing operating effectiveness

It is recognized that the auditor cannot be aware of all the relevant control assertions made by the trustee in its report on internal controls, in particular as these might be affected by the other service providers' control procedures. The auditor does not have the responsibility to identify or test all the control objectives and procedures which have been included in the description of the control report prepared by the trustee and the auditor is not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period under review.

However, it is envisaged that in order to enable the auditor to form an opinion on the design effectiveness and on whether those internal control measures were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented, the auditor would be required to carry out a limited level of testing.

These tests would ordinarily include procedures such as enquiries of appropriate personnel, inspection of relevant documentation, observation of the trustee's operations, and reapplication of, and re-performance of, the control measures to a certain extent.

Tests of operating effectiveness are concerned with how the control procedures were applied, the consistency with which they were applied, and by whom they were applied. The auditor would also need to consider the period of time over which the control procedures were applied.

The nature of a control procedure often influences the nature of tests of operating effectiveness that can be performed. For example, the auditor may examine evidence regarding a control where such evidence exists, however documentary evidence regarding some control procedures often does not exist. In these circumstances, the tests of operating effectiveness may consist of enquiry and observation only.

The decision about what comprises sufficient appropriate evidence is a matter of professional judgment. The auditor would consider for example:

(a) the significance of the control procedure in achieving the relevant objective; and
(b) the nature and extent of any tests of operating effectiveness performed by the trustee (management, internal auditing or other personnel).

Management, internal auditing or other personnel of the trustee may provide the auditor with the results of their tests of the operating effectiveness of certain aspects of internal control. Although the auditor would consider the results of such tests when evaluating operating effectiveness, it is the auditor's responsibility to obtain sufficient appropriate evidence to support the auditor's conclusion and, if appropriate, corroborate the results of such tests. When evaluating whether sufficient appropriate evidence has been obtained, the auditor would consider that evidence obtained through direct personal knowledge, observation, re-performance (to a limited extent only), and inspection is more persuasive than information obtained indirectly, such as from management, internal auditing or other personnel of the trustee. Furthermore, judgments about the sufficiency and appropriateness of evidence obtained and other factors affecting the auditor's conclusion, such as the significance of identified control weaknesses, are those of the auditor.