



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

Our Ref: PAO/001

22nd April, 2020

The Executive Director,
The National Board of Accountants and Auditors (NBAA),
8th Floor, 4 Ukaguzi Road,
P.O. BOX 1271,
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Dodoma, Tanzania
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Dear Sir,

RE: CONSULTATION ON REVIEW OF THE NBAA ACT

Reference is made to your letter Ref: CDB.333/352/08 and dated 17th April 2020, seeking input to the Consultation on review of the NBAA Act.

Please, see comments below on the specific matters, from the Institute of Certified Public Accountants of Uganda;

1. Proposal to enhance accounting and auditing legal and institutional frameworks to improve financial reporting in the country;

In jurisdictions with harmonized legal and institutional frameworks governing accounting and auditing, you will always find a well-managed profession and a high uptake of accountancy services. However, absence of the above usually characterized by multiple centers of prescriptions of accounting and auditing requirements does not only cause confusion within the profession but also makes it hard to adequately align the regulatory requirements for a plausible management of the provisions. A case in point in relation to Tanzania could include the following:

- The Income Tax Act (2017)¹, requires corporations within 6 months of the tax year-end to submit an annual return, which must be prepared or certified as a true and fair view by a Certified Public Accountant in Public Practice. While the Auditors and Accountants (Registration) Act (AARA)² requires that certain persons should submit an income tax return which has been prepared

¹ Sec 97(1)(b)

² Sec 25(1)

or certified by a Certified Public Accountant in Public Practice. The latter requirement is not aligned with the Income Tax Act requirements which seems to cater for a more restrictive audience that is, corporations.

- The Companies Act (2002), despite the amendments is still engrossed with a number of inconsistencies with other legislations. In particular;
 - The Companies Act³ requires companies to prepare financial statements, in compliance with the regulations prescribed by the Ministry of Finance and Planning of Tanzania (MoFP) or the National Board of Accountants and Auditors (NBAA). We however, find this dual assignment of responsibility to 2 different institutions posing conflict;
 - Secondly certain accounting requirements are incompatible with IFRS/IAS. Whereas the IFRS/IAS as adopted by NBAA are dynamic and keep changing in nature and content, the Companies Act only requires a company's balance sheet, profit and loss account and cash flow statement to be compliant with requirements specified in regulations prescribed by the Minister, or the National Board of Accountants and Auditors. The danger of having a prescriptive description of requirements within the Companies Act (which is not frequently amendable as is with the IFRSs/IAS) is the risk of the law containing unharmonized provisions.
- The NBAA issued Technical Pronouncement No. 3 of October 2009 which adopted all future standards, amendments, and interpretations issued by the International Accounting Standards Board (IASB) and identifies the companies that must apply full IFRS and which companies may use IFRS for SMEs in the preparation of their financial statements. The Companies Act seems to bestow the responsibility of issuing generally accepted principles of accounting to the NBAA as premised within the definition section to the Act. However, with conflicting provisions of the Act, this introduces implementation challenges more so given the fact that the NBAA technical pronouncements may lack full force of the law.
We recommend that the adoption of standards is mandated directly by the Companies Act or its regulations.
- Accounting in the public sector and parastatals is equally evidenced with a number of inconsistencies. For example the Executive Agencies Act (1997)⁴, Executive agencies are required to maintain their accounting records in accordance with “commercial accounting standards” a term not defined in the Act but also different from what is used elsewhere in

³ Sect 154(2)

⁴ Sect 15(1)

other legislations in relation to accounting standards.

- The Insurance Act⁵, requires each insurer to prepare accounts which are in accordance with the requirements of the Companies Ordinance and or recognized international accounting standards. However, non-disclosure of the adopter or issuer of the accounting standards to which the insurers should comply may leave room for confusion as to whether compliance should be with accounting standards issued by the International Accounting Standards Board and adopted by NBAA or those standards issued by the International Association of Insurance Supervisors particularly for such standards that are sector specific.
- We also wish to comment on the debate around regulators having a statutorily mandated role in the appointment and termination of auditors in regulated industries. Whereas institutions like the World Bank strongly advocate for each regulatory body to have the above statutory mandate, we believe that the role of the accountancy regulator should not be ignored. In a complete self-regulation regime that is adopted by a number of accountancy bodies in the world, great effort is put around strong quality checks for a remarkable corporate financial reporting which is usually done by exposing firms to periodical quality reviews.
So whereas other regulators may be granted a statutory mandate in the appointment and termination of auditors in regulated industries, this should strictly be done in conjunction with the accountancy regulatory.

2. Proposal to determine penalties for non-compliance by members (of the NBAA) and those charged with responsibility for preparation of financial statements;

Whereas the AARA and the Companies Act provide sanctions for non-compliance by NBAA members and those charged with preparation of financial statements respectively, the provisions particularly of the AARA may need to be fortified by benchmarking sections 26,43 of the Accountants Act (2013) of Uganda.

3. Proposal to strengthening enforcement mechanisms to enhance compliance with the accountancy standards and technical pronouncements;

A number of private and public sector organizations operate in public interest. Whereas the NBAA might have adopted IFRS/IAS and ISA standards for accounting and auditing respectively, merely adopting international accounting and auditing standards may not be enough. High-quality corporate financial reporting depends on

⁵ Sec 26(2)

effective enforcement mechanisms. The members of the NBAA are required to follow all accounting standards adopted by the Board. Whereas disciplinary action may be instituted against a member who is found not to comply with the adopted accounting standards in the preparation of the financial statements, for organizations having no NBAA members; the Board may not have any role over those responsible for preparation of annual financial reports in such circumstances. It is therefore prudent that mechanisms are put in place to enable the NBAA monitor and review the financial statements of entities with significant public interest.

We believe that the Companies Act should provide for financial statements of entities with significant public interest to be monitored and reviewed independently by the NBAA. This means NBAA can demand financial statements from such public interest companies for review. In general, an effective enforcement system may be considered as important as accounting standards themselves, since without adequate enforcement the rules remain requirements only on paper.⁶

4. Proposal to stipulate regulatory (NBAA) requirements and responsibilities for financial reporting and auditing;

No comment

5. Proposal to resolve issues relating to oversight body and member bodies in a country;

Whereas the call for creation of independent oversight bodies has been a perennial call in a number of World Bank reviews on the Observance of Standards and Codes (ROSC), we strongly believe that the path the audit profession is taking of emphasizing self-regulation without separate independent audit oversight arrangements should be commendable. A number of Public Accountancy Organisations (PAO) operate in economies with very few companies that are duly traded on security markets warranting creation of independent oversight bodies like the case is in Europe and South Africa. This is coupled with the fact that Governments in 'developing' economies as a way of improving efficiency are now considering merging a number of regulatory bodies. Based on the above reasoning therefore, we believe that creation of a Quality Assurance Board can remedy the situation at least in the short and medium term.

The Quality Assurance Board composition, independence, enforcement mechanisms and mode of operation may be streamlined to ensure participation and service in public interest. We thus recommend that NBAA adopts ICPAU's experience, where the AARA reinforces oversight role by establishing a Quality Assurance Board.

⁶ Monirul Alam Hossain *et al, *Int. J. Managerial and Financial Accounting*, Vol. 3, No. 2, 2011, Enforcement and compliance of mandatory accounting standards in emerging economies: the case of Pakistan

The Tanzanian Association of Accountants (TAA), registered in accordance with the Friendly Societies Act of 1954, voluntarily unites foreign-qualified professional accountants and aspiring accountants working in Tanzania. The TAA has a Code of Best Practice for its members which is not in line with the IESBA Code of Ethics; however, all TAA members must be members of the NBAA and are subject to its professional standards. A critical review of the TAA activities as compared to NBAA draws some duplication in a number of activities. ***There is thus need to ensure harmonization between the NBAA and the TAA to improve compliance practices.***

6. Proposal to set threshold for companies requiring an audit;

There is a growing practice around the world for different countries to adopt audit exemptions within their respective jurisdictions. This is a known fact among countries in Europe, US, Australia and some on the African continent.

The European Union⁷, requires an audit for certain categories of companies: that is:

- public-interest entities (broadly, those traded on a regulated market, credit and insurance institutions, and those specifically designated as such by Member States)
- medium-sized and large undertakings

Nevertheless, Member States can impose an audit on all or part of their small undertakings which decision is usually driven by the conditions of these small companies and the needs of the users of their accounts. Indeed, the size of the country's economy as well as the size of its individual entities might be taken into consideration. The need to require audit of small companies might also come as a measure aiming to decrease the risk of economic crime and business insolvency.⁸

The 2013 Accounting Directive⁹ defines small undertakings as those which on their balance sheet date for two consecutive years, do not exceed the limits of at least two of the three following criteria;

- (a) balance sheet total: EUR 4,000,000
- (b) Net turnover: EUR 8,000,000
- (c) Average number of employees during the financial year:50

Although the Directive permitted Member States to increase the threshold for (a) and (b) to a level not exceeding the set limits, by principle implying that there would be more companies put out of the scope of being audited, in 2016 only a third of the European countries increased the audit exemption thresholds.¹⁰ A recent survey has further revealed that four European countries had lowered their audit exemption

⁷ Article 34 of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

⁸ Accountancy Europe, Rediscovering the value of SME audit (2018)

⁹ Article 3(2) n 7

¹⁰ Federation of European Accountants, (2016), Information Paper: Audit Exemption Thresholds In Europe - Update After The Transposition Of The Accounting Directive - Available at:

<https://www.accountancyeurope.eu/publications/1605-audit-exemption-thresholds/>

thresholds between 2016 and 2020, with Cyprus completely abolishing all audit exemptions thresholds effective 2016¹¹. For jurisdictions that may have increased their thresholds it is notable that these usually have a high uptake (usage) of accountancy services even though mandatory audit is being exempted entities continue with voluntary audits.

Therefore, majority of policy-makers all over the world continue to recognize the public interest function of statutory audits and regard it as an added-value for businesses and the economy as a whole. There is a strong and important societal role of the audit service that even for entities that may be exempted from audits, there should be a requirement to have their financial statements independently reviewed.

Based on the above discussion, we note that the AARA (as amended)¹² requires that all legal entities, incorporated or unincorporated, with assets and turnover exceeding set levels must employ at least one Certified Public Accountant in public practice or Certified Public Accountant. The way the section was couched gives an impression that for entities that match the stated thresholds may choose to employ either a Certified Public Accountant in public practice or Certified Public Accountant thereby not fully addressing the issue of audit exemption thresholds.

It is thus our honest believe that businesses do better with a mandatory audit or review. In developing economies where the uptake of accountancy services is just growing, there should be no audit exceptions/exemptions. ***We thus recommend that the AARA considers making it mandatory for all companies to undergo statutory audits.***

7. Proposal to upgrading professional education and training;

No comment

8. Proposal to enhancing capacity of regulatory and professional body;

Every profession is defined by the knowledge, skills, attitude and ethics of those in the profession. Regulation of a profession is a specific response to the need for certain standards to be met by the members of that profession. The need for and nature of such regulation is dependent on the specific profession and the market conditions in which it operates.

¹¹ Accountancy Europe, (2020) Audit Exemption Thresholds in Europe – Survey Results, Available at: <https://www.accountancyeurope.eu/publications/audit-exemption-thresholds-in-europe/>

¹² Sec 21(1)

We firmly note the concerted efforts taken by NBAA to regulate the accountancy profession in Tanzania. We recommend that NBAA strengthens its regulatory regime and focus towards:

- (a) Ensuring adequate and effective quality assurance arrangements with respect to Certified Public Accountants in Public Practice.
- (b) Improving the Investigation and Disciplinary arrangements with respect to disciplining errant members.
- (c) Instituting effective monitoring and sanction mechanisms to ensure that its members maintain current professional standards through continuous professional development;
- (d) Considering regulation of non-members who may be involved in the accounting and financial reporting process to ensure wider accountability and increased credibility of the profession.
- (e) Strengthening the capacity of other regulatory bodies to assist in checking for compliance with applicable accounting standards and laws;
- (f) Utilising and realizing the capacity of the East African Community Accounting Institutes (EACIA) to effectively join efforts on a regional basis based on the 2011 Mutual Recognition Agreement (MRA) that aimed at facilitating collaboration and mutual recognition in various areas of common interest as premised therein.

Remember, the sustainability of the accountancy profession depends upon the quality of the services provided by its members and on the profession's capacity to respond effectively and efficiently to the demands of the economy and society.¹³

9. Proposed stringent measures/mechanisms to be instituted to achieve quality and reliable financial statements in order to strengthen compliance with accounting and auditing practices in the country; i.e. how can a Regulatory body regulate its members (auditing firms) efficiently and at the same time protecting their interest (conflict of interest);

Our comments in number 3 and 5 above refer.

10. The rationale and justification for the proposed changes and in particular, analysis by which the proposal will help any Government to achieve its overarching economic, fiscal and poverty reduction objectives. If there is any bench marking example, will be much appreciated.

It is undoubted that professional accountancy plays a remarkable contribution to development of economies. This is largely premised on the well-known approach of the profession to serve in public interest. The International Federation of Accountants (IFAC), highlights the fact that in bid for the accountancy profession to fulfill its responsibilities of acting in public interest, there is need to:

¹³ IFAC, Position Paper (2007) Regulation of the Accountancy Profession

- require that accounting professionals apply high standards of ethical behavior and professional judgment;
- work with the regulatory community, and governments to develop and implement high-quality professional standards for financial reporting, auditing and assurance, ethics, public sector financial reporting, and accounting education;
- promote high-quality international standards to facilitate the comparability of financial reporting and auditing (across different jurisdictions);
- specify appropriate educational requirements and qualifications for professional accountants;
- maintain constructive dialogue with governments, regulators, universities, and other financial industries (e.g., banking, insurance, valuation, actuarial);
- enable ongoing consideration of new forms of reporting such as XBRL, integrated reporting and non-financial reporting formats; and
- ensure that disciplinary arrangements are in place (e.g., the respective committee, regulatory mechanism, or oversight group responsible for imposing sanctions or disciplinary measures) to address unethical matters, violations of law, or non-compliance with professional regulations.¹⁴

Instituting the above guidance resonates with ensuring accountability of the profession for a greater good; a role akin to the services provision role by the Government. A strong accountancy profession thus is essential to economic development and economic confidence, both in the public and the private sectors. The relevancy of the profession; anchors on building sustainable and ethical businesses that work in the public interest but also checking Government accountabilities. This can only be achieved where there is a well structured institutional and legal framework supported by Government.

Should there be an opportunity to clarify on our submissions, we shall be happy to do so.

Yours faithfully,



CPA Derick Nkajja
SECRETARY/ CEO

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¹⁴ IFAC, Policy Position 5 (2012) A Definition Of The Public Interest