



Promoting Professionalism in Accountancy

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

ISA 700 POST IMPLEMENTATION REVIEW REPORT

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Plot 42, 46 and 48 Bukoto Street, Kololo,
P.O. Box 12464, Kampala, UGANDA
Tel. +256-414-540125, +256-312-226233
Email: icpau@icpau.co.ug, standards@icpau.co.ug
Website: www.icpau.co.ug

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266 now the Accountants Act, 2013. The functions of the Institute, as prescribed by the Act are:

- i. To regulate and maintain the standard of accountancy in Uganda.
- ii. To prescribe and regulate the conduct of accountants and practising accountants in Uganda.

Vision

To be a World-Class Professional Accountancy Institute

Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond, in public interest

Core Values

- 1) Professional Excellence
- 2) Accountability
- 3) Integrity
- 4) Innovation

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1.0 BACKGROUND

The auditor's report is a key deliverable that addresses the output of the audit process. It is what the users of the financial statements see and read and what enhances the credibility of the financial statements for the users. In response to various calls that the auditor's report should be more informative about the audit that has been performed, including more entity-specific and audit-specific information, the International Auditing and Assurance Standards Board (IAASB) issued its new and revised auditor reporting standards for audits of financial statements ending on or after 15 December 2016.

The new and revised auditor reporting standards were adopted by Uganda in 2016 and Practice Statement 1/16: Forming an opinion and reporting on financial statements was issued to enhance auditor compliance with the reporting requirements but also prescribe jurisdictional approach to the various requirements of the new standards. ISA 700 (Revised), one of the new auditor reporting standards, changed the format and content of auditor's report.

In recognition of the requirements of the new auditor's reporting standards, the P/S1/16 provided pronouncement on a number of issues including the following;

- Communicating KAMs in the auditor's report for audits of publicly accountable entities.
- The auditor's responsibilities paragraph be included within the body of the auditor's report.
- The name of the engagement partner be included in the auditor's report though with some exemptions.
- The auditor's report be signed by the engagement partner in his or her personal name.
- In case where an accounting firm is appointed as the auditor, the report be signed in the personal name of the engagement partner and in the name of the accounting firm.
- The auditor's report should bear;
 - A unique identification mark assigned by the ICPAU
 - State the location in which the auditor practices
 - Name a specific location, which is ordinarily a city or a town in Uganda.
 - Printed on the accounting firm's letterhead among other.

The requirements of the new and revised auditor reporting standards as well as the requirements of the practice statement became effective for audits of financial statements for periods ending on or after 15 December 2016.

However, some practicing accountants requested Council to review some of the provisions, considered possibly onerous. These practitioners particularly highlighted the fact that:

- The requirement for two signatures where the firm is appointed as auditor was excessive especially where several sets of accounts were to be signed off by the same partner.
- The requirement for use of a seal would be impractical and create confusion especially for firms that had more than one practitioner, as each would be seen as using their seal yet operating under the same firm.

- The requirement to report on KAMs by audit of financial statements of publicly accountable entities was onerous given the wide scope of the entities considered publicly accountable as per the ICPAU IFRS for SMEs Implementation Guidelines, 2009.

The Council basing on the recommendation of the then Technical Committee (now Professional Standards Committee)¹ resolved that a post implementation review be conducted following a period of 12- 24 months of implementation of the Practice Statement, in order to determine whether there is any need for further refinement of those requirements of the Practice Statement and the Standards and/or including obtaining experiences in introducing the requirements of the Practice Statement and the new standards into their firm auditor reporting methodologies. This report summarises the key findings and recommendations of the post implementation review that was done between 2019 and March 2021.

2.0 METHODOLOGY

The review was conducted through assessment of 202 auditor reports prepared by accounting firms in Uganda. This was done during;

- a) Audit Quality Assurance Reviews conducted between April 2019 and 2020;
- b) Financial Reporting (FiRe) awards evaluation for reports submitted for the 2019 and 2020 FiRe Awards.

The reviewed auditor's reports covered a wide range of industries as shown in the table below with the industries ranging from banks, insurance companies and SACCOs to Non-Governmental Organisations among others.

Industry	Number of reports reviewed	Percentage
Banks	11	5.4%
Insurance Companies	17	8.4%
SACCOs	15	7.4%
Non-Governmental Organisations	24	11.9%
Educational Institutions	9	4.4%
Forex Bureaus	9	4.4%
Government Business Entities	6	3%
Retirement Benefit Schemes	26	12.9%
Manufacturing Companies	4	2%
Trading Companies	30	14.9%
Local Governments	3	1.5%
Medical Facilities	6	3%
Others	42	20.8%
Total	202	100%

¹ The Technical Committee in its 90th meeting (held on 31 March 2017) had resolved that the Institute conduct a post implementation review on the requirements of the practice statement.

The review also included the following activities;

- a) An electronic survey among practitioners was conducted between September and October 2020 primarily to identify challenges and the support that the practitioners required (see Appendix 1 for the survey report).
- b) A focused group meeting with a selected number of practitioners from the Small and Medium Practices (SMPs).

This report is a presentation of the findings gathered. The report shows the level of adoption of the new auditor reporting standards in Uganda, the challenges practitioners encounter in applying the standards and recommendations on improving the new auditor reporting standards and Practice statement.

3.0 OVERVIEW OF REVIEW FINDINGS

3.1 Compliance with the requirements of ISA 700 (Revised)

ISA 700 (Revised) introduced changes to the format of the auditor's report. The opinion section is now expected to be presented as the first section of the report followed by the basis of opinion section unless laws or regulations prescribe otherwise. The standard also introduced a new section to communicate key audit matters- those matters that, in the auditor's judgment were of most significance in the audit of the current period financial statements. The new changes also included a requirement to disclose the name of the engagement partner, with a harm's way exemption. The new format also included enhanced auditor reporting on going concern.

Generally, the review revealed that most auditors in Uganda had adopted and were compliant with the requirements of ISA 700 (Revised). Of the 202 auditor's reports reviewed, only 5 reports did not comply with the requirements of the new standard as they were written either in the old format or following other donor requirements for the case of NGOs.

The review further revealed that the respondents preferred the new auditor's report with over 90% of the respondents of the survey indicating that the new auditor's report had increased their confidence in the quality of audits performed (see Appendix 2).

3.2 Other Observations on Compliance with ISA 700 (Revised) Requirements

The review revealed that although practitioners in Uganda had largely adopted ISA 700, some inconsistencies with the requirements of the standard were observed. These include the following;

3.2.1 Opinion Section

ISA 700 (Revised) requires that the first section of the auditor's report shall include the auditor's opinion. The opinion section of the auditor's report shall also identify the entity whose financial statements have been audited, the title of each statement comprising the financial statements, refer to the notes including the summary of significant accounting policies and

specify the date of or period covered by each financial statement comprising the financial statements.

Of the reports reviewed, five reports did not have the opinion section as the first section of the auditor's report. One of the reports was prepared according to the US Government Auditing Standards, another according to donor agreement requirements while the rest simply used the old format.

3.2.2 Basis of Opinion Section

ISA 700 (Revised) states that the auditor's report shall include a section, directly following the opinion section, with the heading "Basis of Opinion", that:

- a) States that the audit was conducted in accordance with International Standards of Auditing (ISAs);
- b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;
- c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Except for the five reports that did not comply with the new format, majority of the reports reviewed were compliant with this requirement.

3.2.3 Key Audit Matters (KAMs) Section

The introduction of the KAMs section was probably the biggest change in ISA 700 (Revised). In this section, the auditor is required to communicate key audit matters in the auditor's report in accordance with ISA 701 for audits of complete sets of general-purpose financial statements. KAMs are those matters that, in the auditor's judgment, were of most significance in the audit of current period financial statements. In Uganda, disclosure of KAMs is required for audits of listed entities as well as other entities that may be of significant public interest like banks, insurance companies, pension and retirement benefit schemes, SACCOs, unit trusts and security brokers/ dealers. Public interest entities comprised about 37% of the reports reviewed.

Of these, eight auditor's reports for public interest entities were found not to have a key audit matters section as required by ISA 700 (Revised). Further analysis of the various reports revealed that some auditors were not fully compliant with ISA 700 (Revised) requirements regarding the reporting of KAMs. The standard requires that a description be given for why the identified matters were considered to be of most significance during the audit and how the matter was addressed during the audit. The review showed that this was not fully complied with in six of the eight reports that did not comply with this section.

The review further revealed that some practitioners were presenting KAMs the wrong way. In three out of the eight reports that did not comply with this section, issues that should have

been presented as other matters were presented as KAMs, which contravenes the requirements of ISA 700 (Revised).

3.2.4 Engagement Partner's Name

ISA 700 (Revised) makes it mandatory to disclose the name of the engagement partner for audits of financial statements, except in rare circumstances where such disclosure is reasonably expected to lead to a significant personal threat to the auditor. Naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report. Of the reports reviewed, 17 were found not to have disclosed the engagement partner's name as required by the standard.

3.2.5 Auditor's Signature

ISA 700 (Revised) requires the auditor's report to be signed. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In Uganda, the Practice Statement issued by ICPAU in regards to the Auditor's report requires;

- i) The auditor's report to be signed by the engagement partner in his or her personal name.
- ii) The report to be signed in the personal name of the engagement partner and in the name of the accounting firm where the accounting firm is appointed as the auditor.
- iii) The auditor's report to include a unique identification mark assigned by ICPAU.

The review revealed that some reports did not comply with the above requirements as stipulated by the standard. The table below shows the findings relating to how the reviewed reports were signed;

Particulars	Frequency	Percentage
Report signed in partner's name only	31	15.3%
Report signed in firm's names	28	13.9%
Report signed in partner's and firm's names	143	70.8%
Total	202	100%

3.2.6 Date of the Auditor's Report

ISA 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the audit opinion. The date of the auditor's report informs the users of the report that the auditor has considered the effects of events and transactions of which the auditor became aware and that occurred up to that date. Except for four reports, the review revealed that the auditor's reports generally complied with this requirement.

3.2.7 Auditor's address

ISA 700 (Revised) requires the auditor's report to name the location in the jurisdiction where the auditor practices. The location on an auditor's report shall be the registered office from which the engagement partner issues the auditor's report. In Uganda, it is a requirement to have the auditor's report printed on the accounting firm's letterhead. The review showed that this requirement is generally well complied with.

4.0 RECOMMENDATIONS

- Communication of KAMs should remain mandatory for publicly accountable entities.
- Additional support should be availed to enhance compliance with the requirements about the standard, particularly in the area of communication of KAMs. This support could be in terms of developing material such as articles or practice statements to enable practitioners develop the skills of easily identifying and presenting KAMs as well as Emphasis of Matter and Other Matter paragraphs where necessary.
- The requirement for disclosure of the name of the engagement partner should be maintained.
- The requirement for use of an authorised mark on all audit reports should be maintained because it helps to protect the integrity of the report. However, given the advances towards electronic procedures and documents, the use of electronic signatures should be accommodated in the audit reports in line with ISA 700 requirements provided physical reports are signed subsequently and that electronic signatures are used in line with both the requirements of ISA 700 and the Electronic Signatures Act 2011.

5.0 CONCLUSION

The review confirms that ISA 700 has generally been well adopted in Uganda with many of the auditor's reports reviewed having complied with the standard. However, some instances of non-compliance were noted especially in regards to disclosure of KAMs, the engagement partners' names and signatures. It is therefore recommended that ICPAU continue to provide implementation guidance as well as training to ensure the instances of non-compliance are dealt away with.

APPENDIX 1: AUDITOR REPORTING POST IMPLEMENTATION SURVEY REPORT

1.0 Introduction

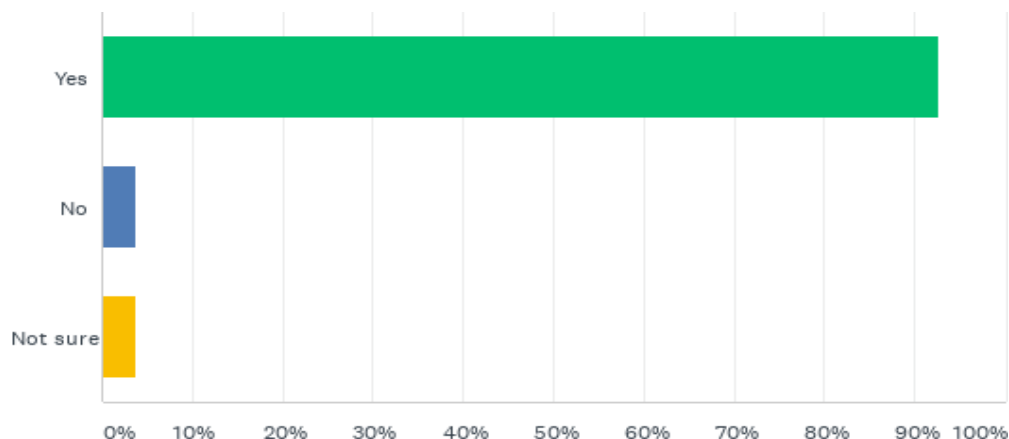
The new and revised auditor reporting standards were adopted by Uganda in 2016. ISA 700 (Revised), one of the new auditor reporting standards, changed the format and content of the auditor's report. This survey was undertaken as part of the ISA 700 (Revised) Post Implementation Review, which was commissioned to address concerns of practicing accountants about some provisions of the new standards that seemed too onerous. The survey was administered electronically to members by email and on social media from September to October 2020.

30 responses were obtained and analysed. This survey report describes responses, based on the survey results. The report is presented according to members' responses to the issues below:

- Format and content of the new auditor's report
- Challenges regarding elements of the new auditor's report

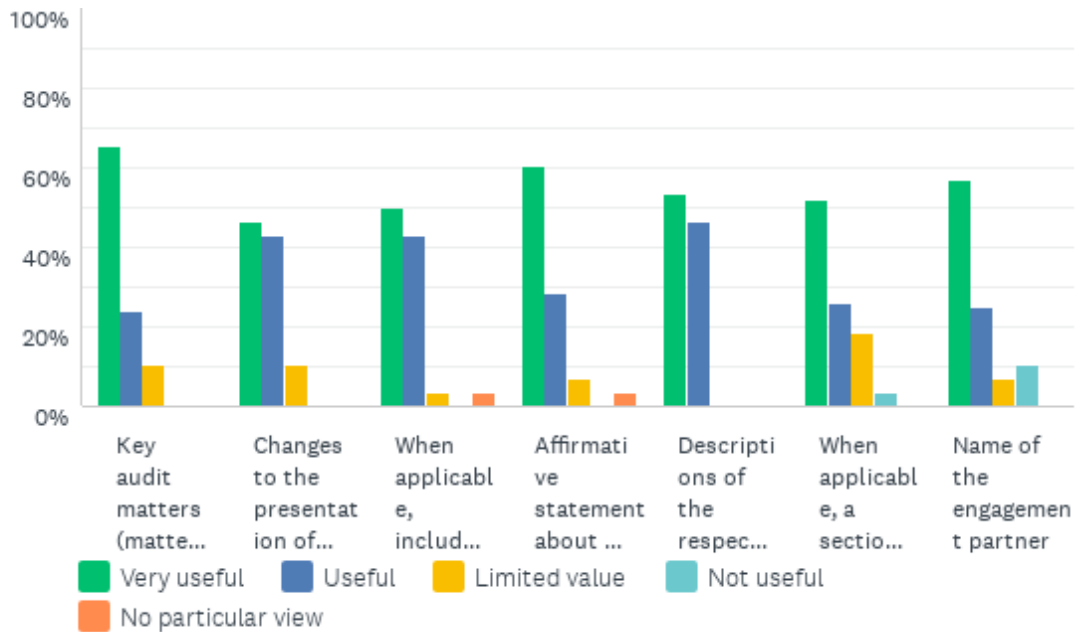
2.0 Format and content of the new auditor's report

This section of the report contains views of the respondents about the format of the new auditor's report. About 92% of the respondents indicated that new auditor's report had increased their confidence in the quality of audits performed (see below for detailed responses).



Qtn: In your view, has the new auditor's report increased your confidence in the quality of the audit performed? Survey responses collected September- October 2020, from ICPAU members, n= 30.

The survey further revealed that confidence in the auditor's reports increased due to the requirements to include additional details such as key audit matters (KAMs) and the engagement partner's name. New sections provided for in the new auditor's report such as the KAMs, materiality uncertainty related to going concern (where applicable), affirmative statement about the auditor's responsibilities and the name of the engagement partner are some of the new sections that were identified as very useful to the respondents with over 50% of them indicating so. See graph below for details.

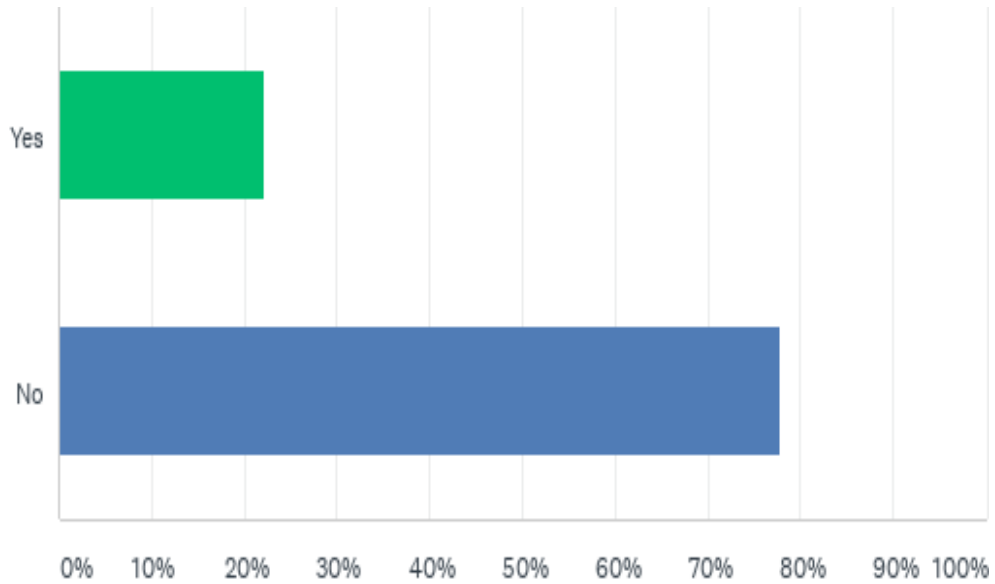


Qtn: In your view, to what extent has the following information provided in the new auditor’s report been useful? Survey responses collected September- October 2020, from ICPAU members, n= 30.

To further support their views, respondents stated that the new auditor’s report was structured to be more relevant to the needs of the readers as sections like the KAMs section help the readers of the auditor’s reports to appreciate and contextualize the work done and conclusions contained therein.

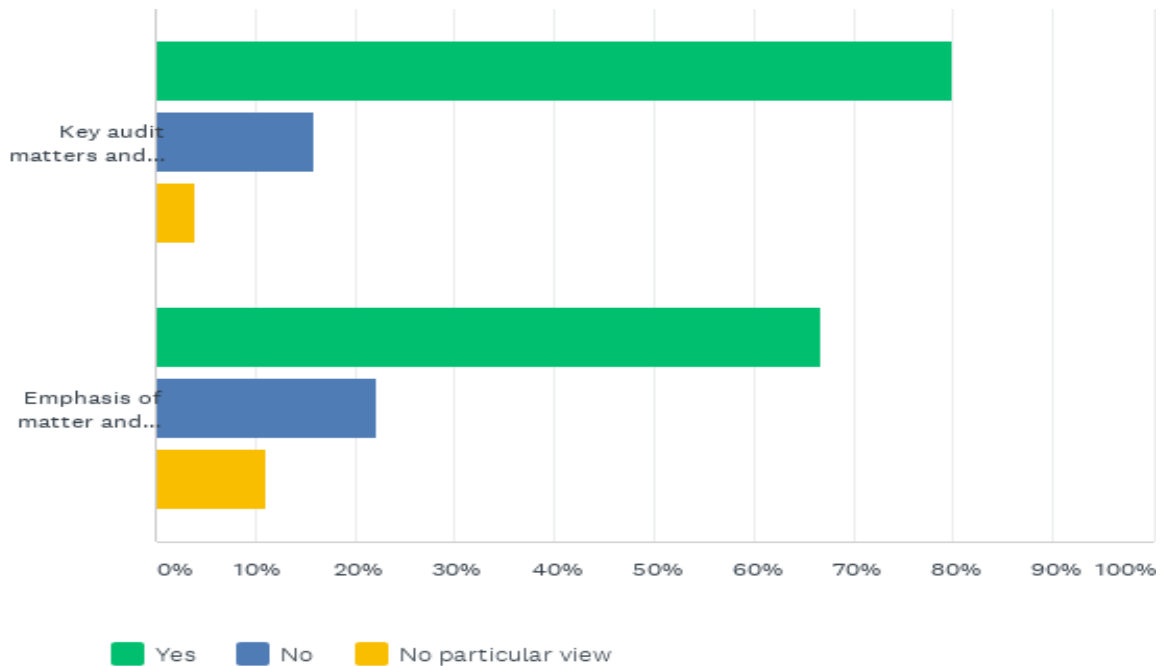
3.0 Challenges regarding elements of the new auditor’s report

The section of the report contains views of the respondents regarding any challenges they may have experienced with the new auditor’s report. Generally majority of the respondents stated that they had not encountered any challenges with the new auditor’s report with only 22% of the respondents stating that they had experienced issues or implementation challenges regarding elements of the new auditor’s report. (See below for detailed responses).



Qtn: Have you experienced any issues or implementation challenges regarding the elements of the new auditor's report? Survey responses collected September- October 2020, from ICPAU members, n= 30.

They survey further showed that this could be due to lack of clarity between sections like KAMs and Material uncertainty related to going concern paragraphs or emphasis of matter and other matter paragraphs. About 33% of the respondents indicated they did not have clear and understandable differences of these sections.



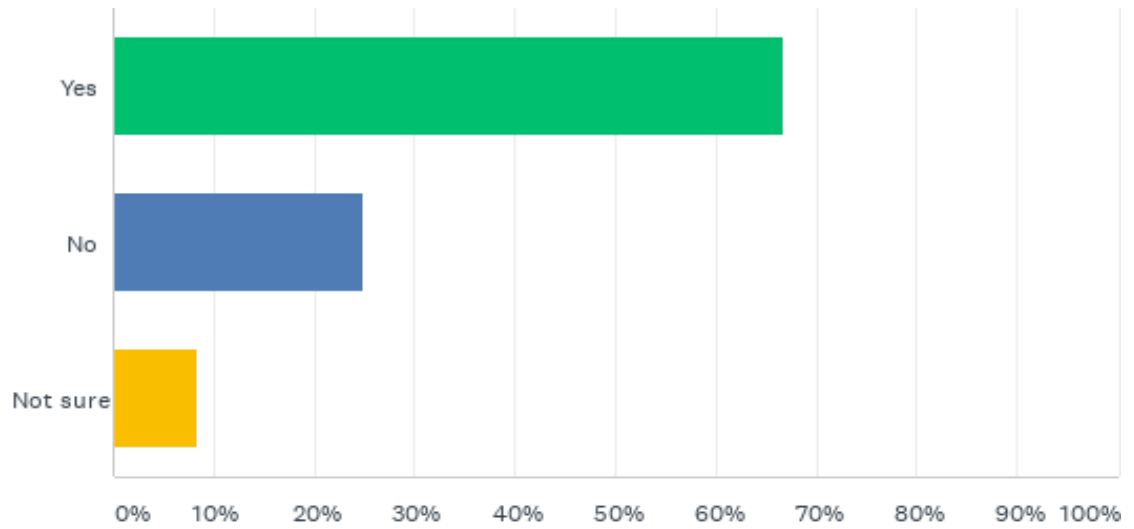
Qtn: In your view, are the differences between the following sections in the auditor’s report clear and understandable? Survey responses collected September- October 2020, from ICPAU members, n= 30.

Determination of KAMs during an audit and their eventual communication in the auditor’s report were also identified as a challenge area for the respondents. The challenges were mostly in the determination of matters to report as KAMs, reporting of the KAMs in the auditor’s report and reporting how the matters reported as KAMs were addressed during the audit. See the table below for detailed responses.

	SIGNIFICANT	HIGH	MODERATE	LOW	NO PARTICULAR VIEW	TOTAL	WEIGHTED AVERAGE
Determination of matters to report as KAMs	42.31% 11	38.46% 10	19.23% 5	0.00% 0	0.00% 0	26	1.77
Interactions among the auditor, management and those charged with governance regarding the adequacy of related disclosures in the financial statements	30.77% 8	38.46% 10	26.92% 7	3.85% 1	0.00% 0	26	2.04
Preparing the description of KAMs- the wording around why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM	38.46% 10	34.62% 9	23.08% 6	3.85% 1	0.00% 0	26	1.92
Preparing the wording around how the matter was addressed in the audit	25.93% 7	44.44% 12	18.52% 5	7.41% 2	3.70% 1	27	2.19
Description of KAMs in terms that are concise, understandable and specific to the entity	34.62% 9	42.31% 11	23.08% 6	0.00% 0	0.00% 0	26	1.88

Qtn: Indicate the degree to which, in your view, the following aspects relating to the determination of KAMs in the auditor’s report have given rise to challenges for the audit team. Survey responses collected September- October 2020, from ICPAU members, n= 30.

This explains why majority of the respondents felt that the IAASB should let auditors provide additional information in terms of describing the outcome of the audit procedures and key observations with respect to KAMs. 66% of the respondents supported this as shown the graph below.



Qtn: Should auditors provide additional information in terms of describing the outcome of the audit procedures or key observations with respect to KAMs? Survey responses collected September- October 2020, from ICPAU members, n=30.