



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

PRACTICE STATEMENT

**PS1/16: FORMING AN
OPINION AND REPORTING ON
FINANCIAL STATEMENTS**

OCTOBER 2016

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1.0 INTRODUCTION

1.1 Regulating the Accountancy Practice

The Institute of Certified Public Accountants of Uganda (ICPAU) was established by an Act of Parliament in 1992 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 practicing accountants in Uganda.

1.2 Setting and Maintaining Professional Standards

In pursuit of its statutory obligation, the Institute adopted the International Standards on Auditing (ISA) and other related standards issued by the International Auditing and Assurance Standards Board (IAASB) for application in Uganda in 1999.

Section 12 of the Accountants Act, among others, empowers the Council of Institute:

- (a) To ensure the maintenance of professional standards by the members of the Institute and to take steps to acquaint the members with methods and practices necessary to maintain those standards.
- (b) To issue and adopt internationally accepted accounting and auditing standards and promote their usage in Uganda and to make suitable adaptation where necessary.

This practice statement aims at clarifying and promoting consistency of application of the requirements of the new auditor reporting standards.

1.2 Interpretation

In this Practice Statement, unless the context otherwise requires—

- a) “Accounting Firm” or “Firm” means a sole proprietorship or partnership of qualified practising accountants and licensed under the Accountants Act, 2013;
- b) “Auditor” means a person or persons conducting the audit, usually the engagement partner or the other members of the engagement team, or, as applicable the firm.
- c) “Engagement Partner” means the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, holds a Certificate of Practice issued by the Institute of Certified Public Accountants of Uganda;
- d) “Registered Office” refers to the principal office and all other offices operated by an accounting firm and declared as such to the Institute.

2.0 AUDITOR'S REPORT

2.1 Purpose of an Audit

The purpose of an audit is to enhance the degree of confidence of the intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

2.2 The New and Revised Auditor's Reporting Standards

The auditor's report is the key deliverable addressing the output of the audit process. The new and revised Auditor Reporting standards are intended to result in an auditor's report that increases confidence in the audit and the financial statements.

2.3 ISA 700 (Revised) Forming an Opinion and Reporting on the Financial Statements

ISA 700 deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements. ISA 700 requires the auditor's report to be in writing.

ISA 700 is aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. ISA 700 details the required content of an auditor's report. It is essential that ISA 700 is applied consistently by all auditors in Uganda.

3.0 KEY AUDIT MATTERS

ISA 700 (Revised) introduces a new section to communicate key audit matters (KAM). KAM are those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements.

Extract from the Standard

700.30 For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.

700.31 When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40-A42)

A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.

A41. The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

Requirement:

For audits of financial statements of publicly accountable entities, the auditor shall communicate key audit matters in the auditor's report.

Under the ICPAU Guidelines for Implementation of the IFRS for SMEs (2009), the Council of ICPAU designated the following as publicly accountable entities:

- a. Entities whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or are in the process of issuing such instruments for trading in a public market.
- b. Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. In Uganda, these include, but are not limited to:
 - (i) Banks, credit institutions, micro-finance deposit taking institutions and similar/related financial institutions. These include commercial banks, post office savings banks, merchant banks, mortgage banks, building societies, acceptance houses, discount houses and finance houses.
 - (ii) Non-regulated micro-finance institutions and SACCOs (savings and credit cooperative organizations).
 - (iii) Insurance and re-insurance companies.
 - (iv) Mutual funds and collective investment schemes (including unit trusts).
 - (v) Security brokers/dealers.
 - (vi) Pension and Retirement Benefit Schemes.
- c. Public organisations, in which the State owns the whole or part of the proprietary interest or which is otherwise controlled directly or indirectly by the State, including parastatals, state enterprises, commissions and authorities.
- d. Private organisations in which the State has a non-controlling equity interest.

4.0 LOCATION OF THE DESCRIPTION OF THE AUDITOR'S RESPONSIBILITIES

ISA 700 (Revised) includes enhanced description of the auditor's responsibilities and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority.

Extract from the Standard

- 700. 41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 39-40 shall be included: (Ref: Para. A54)*
- (a) Within the body of the auditor's report;*
 - (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A54-A55)*
 - (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so. (Ref: Para. A54, A56-A57)*

Requirement:

The description of the auditor's responsibilities shall be included within the body of the auditor's report.

5.0 NAME OF THE ENGAGEMENT PARTNER

ISA 700 (Revised) makes it mandatory to disclose the name of the engagement partner for audits of financial statements of listed entities.

Extract from the Standard

700.46. The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61-A63)

A62. Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of complete sets of general purpose financial statements of listed entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.

Requirement:

The name of the engagement partner shall be included in the auditor's report for audits of financial statements, except in the rare circumstances where such disclosure is reasonably expected to lead to a significant personal security threat to the auditor.

6.0 SIGNATURE OF THE AUDITOR

Extract from the Standard

700.47. The auditor's report shall be signed. (Ref: Para. A64-A65)

A64. 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 addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

A65. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

Requirement:

- (1) The auditor's report shall be signed by the engagement partner in his or her personal name.
- (2) Where the accounting firm is appointed as the auditor, the report shall be signed in the personal name of the engagement partner and in the name of the accounting firm.
- (3) The auditor's report shall include a unique identification mark assigned by the ICPAU.

7.0 AUDITOR'S ADDRESS

ISA 700 (revised) requires the auditor's report to name location in the jurisdiction in which the auditor practices. The relevant attribute of the auditor's report is the location of the auditor and not the location of the client or the location of the underlying staff that may perform the work.

Extract from the Standard

700.48 The auditor's report shall name the location in the jurisdiction where the auditor practices.

Requirement:

- (1) The auditor's report shall state the location in which 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.
- (2) The report shall name a specific location, which is ordinarily a city or a town in Uganda.
- (3) The auditor's report shall be printed on the accounting firm's letterhead.
- (4) The accounting firm's letterhead shall bear the addresses of all the registered offices of the auditor in Uganda.

8.0 EFFECTIVE DATE

The new and revised Auditor Reporting standards shall be effective for audits of financial statements for periods ending on or after **15 December 2016**.

This Practice Statement shall become effective on the same date. Earlier application of the new and revised auditor reporting standards and this Practice Statement is encouraged.