

# THE LEGAL AND REGULATORY FRAMEWORK FOR INTERNAL AUDIT PRACTICE IN UGANDA

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## **ABOUT ICPAU**

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy body in Uganda. The functions of the Institute, as prescribed by the Accountants Act, Cap. 294 are to regulate and maintain the standard of accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practicing accountants in Uganda. ICPAU has over 3,000 registered members and over 8,000 active students going through the Institute's examinations scheme at various levels of completion.

### **Vision**

A globally recognized promoter of accountants for sustainable economies

### **Mission**

To develop and regulate accountants for professional excellence and sustainable impact

### **Core Values**

- Professional excellence
- Accountability
- Integrity
- Responsiveness

## **DISCLAIMER**

This Paper provides a general overview of the legal and regulatory framework for the internal audit practice in Uganda to inform internal auditors about internal audit-related legal and regulatory obligations in the framework.

Whereas every care has been taken in the preparation of this paper, the ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, because of the use and application of the Paper.

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## **1.0 INTRODUCTION**

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and advisory service designed to add value and improve an organization's operations. The internal audit function helps organisations accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes. This paper aims at highlighting the legal and regulatory framework of the internal auditing practice in Uganda.

## **2.0 BACKGROUND**

The earliest accounts of auditing can be traced back to the public finance systems in Babylonia, Greece, the Roman Empire and Italy, all of which developed a detailed system of checks and counterchecks to reduce bookkeeping errors and inaccuracies as well as fraud. Over the years, as businesses grew in size, scope and complexity, there arose a critical need for a separate internal audit function that would provide assurance over information used for decision-making by management. As a result, the auditing function evolved from merely detecting fraud and errors to adding credibility to financial statements.

The auditing approach continued to evolve to address demands from significant regulatory and legislative mandates, especially after the establishment of the IIA in 1941, as it became the global body that issues internal auditing standards. Currently, internal auditors must be prepared to audit virtually everything including operations, financial performance, information and technology systems, fraud as well as compliance with laws and regulations. As organisations adopt new technologies such as robotics and Internet of Things (IoT), the internal audit function today is challenged with assessing cyber risks of these new and emerging technologies as well as their impact on business operations. World over, the demand for the internal audit function continues to grow especially in risk management and control processes evaluation.

Today, the internal audit practice in Uganda has blossomed to become indispensable in the evaluation of controls and promotion of good governance in both private and public entities. Internal auditors in Uganda now cover a wide range of areas such as governance, risk management, efficiency and effectiveness of operations, reliability of financial and management reporting and compliance with laws and regulations. Internal auditors are also expected to be proactive in detecting fraudulent activities and to participate in fraud investigations.

### **3.0 DESIRABLE LEGAL AND REGULATORY FRAMEWORK FOR INTERNAL AUDITING**

The IIA which is the global internal auditing standards setting body supports non-prescriptive legislation and regulation that enhances governance by mandating internal audits. While countries vary considerably with respect to political frameworks, legal systems, culture, and economic development, the IIA recommends that appropriate legislative and regulatory guidelines in any country should adhere to the following<sup>1</sup>:

#### **a) Define Internal Auditing**

Good internal auditing legislation and regulation should have clear and precise definitions of its elements. The IIA recommends that legislation and/or regulation relating to internal auditing adopt the definition stated in the Institute of Internal Auditors' Global Internal Audit Standards (hereafter referred to as the Standards). The Standards define internal auditing as “an independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.”

#### **b) Independence and Objectivity**

Independence and objectivity are integral to internal audit activities and are incorporated in the Standards. The IIA recommends that ideal legislation and/or regulation should emphasise the organisational independence of the internal audit activity and the objectivity of internal auditors in the performance of their work. Independence as defined by the Standards is the freedom from conditions that impair ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner. Independence is best achieved when internal audit has a direct reporting line to the governing body, is sufficiently resourced, and has the proper competencies of staff to carry out its work.

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities and achieve the purpose of internal auditing without compromise. This means avoidance of personal beliefs that could result in interference with the analysis of facts or deliberate omission or alteration of facts to support one view over another.

#### **c) Global Internal Audit Standards Conformance**

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<sup>1</sup> The IIA (2018): Legislative and Regulatory Guidelines, Global Recommendations, The Institute of Internal Auditors, Inc, Florida, US, [www.theiia.org](http://www.theiia.org)

The Standards provide authoritative global guidance promulgated by the IIA. To promote a professional level of service among internal auditors, the IIA recommends that countries adopt legislation and/or regulation that requires internal audit activities to conform to the mandatory elements of the IIA's Global Internal Audit Standards.

#### **d) Governing Bodies**

Typically, a committee of the governing body (often a designated audit committee) oversees all audit functions in the organization, including the internal audit activity. To ensure the effectiveness and organizational independence of internal audit functions, countries should adopt laws and regulations that require for organizations to appoint a committee of the board to oversee the internal audit function and to whom heads of internal audit functions report functionally. The audit committee (or assigned committee)'s functions shall include the review and approval of:

- The head of internal audit's appointment, remuneration, review, and removal.
- The internal audit charter
- A risk-based internal audit plan
- Internal audit budget and resources

## **4.0 THE LEGAL AND REGULATORY FRAMEWORK FOR THE INTERNAL AUDIT PRACTICE IN UGANDA**

The regulation of internal auditing is concerned with the issue of ensuring that internal auditors follow best practice standards. The functions and operations of internal auditors are governed by several laws in Uganda such as:

### **4.1 Accountants Act Cap. 294**

S. 34(2) of the Accountants Act Cap 294 (hereafter referred to as the Act) requires all heads of accounts, finance, and internal audit in public and private entities, with public interest to be members of the Institute of Certified Public Accountants of Uganda (ICPAU).

### **4.2 Public Finance Management Act Cap. 171**

#### **4.2.1 The Internal Auditor General**

The Public Finance Management Act Cap. 171 sets out the legal mandate of internal audit functions in government institutions. S.47 of the Public Finance Management Act 2015 provides for the establishment of the office of the Internal Auditor General who reports to the Secretary to the Treasury in the Ministry of Finance and Economic Development. The Internal Auditor General is charged with several duties such as:

- Development of the internal audit strategy and supervision of its implementation.
- Development of internal audit policies, rules, standards, manuals, circulars and guidelines.
- Review and consolidation of audit reports from the votes and externally financed projects.
- Facilitation of the development of internal audit cadres.

#### **4.2.2 Internal Audit Functions in Votes**

S. 48 requires every vote to have an internal auditor responsible for:

- Appraising the soundness and application of the accounting, functional and operational controls of a vote;
- Evaluating the effectiveness and contributing to the improvement of risk management processes of a vote; and
- Providing assurance on the efficiency and the effectiveness of the economy in the administration of the programs and operations of the vote.

To achieve this mandate, internal auditors require unlimited access to information and property to be audited and be provided with the required explanations.

#### **4.2.3 Internal Audit Functions in Local Government Votes**

S.49 of the Public Finance Management Act also empowers the minister responsible for finance to establish audit committees for each sector or local government vote. The responsibilities of these committees include assisting accounting officers in the performance of oversight responsibilities relating to financial practices, internal controls, corporate governance issues, compliance with laws, ethics and audit matters.

### **4.3 Local Governments Act Cap. 138**

The Local Governments Act Cap. 138 provides for internal audit functions in local governments. S.90 of the Local Governments' Act Cap. 138 provides for the existence of an internal audit department in every district, city, municipal or town council. The heads of these departments are tasked with submitting quarterly audit reports to their respective councils with a copy submitted to the Local Government Public Accounts Committees. S. 91 of the Local Government Act (Amended 2002) maintains the requirement for every district, municipal council or town to provide for an internal audit department.

The establishment of internal audit units in local governments is further reiterated in R.104 of the Local Governments (Finance and Accounting) Regulations 2007. These



regulations require that internal audits in local governments be performed in compliance with the Local Governments Act and the internal audit manual.

R.106 of the Local Governments (Finance and Accounting) Regulations 2007 requires Local Government Internal Audit functions to carry out regular value-for-money reviews for all local government activities in addition to the periodic internal audits performed in accordance with the Local Governments Act and the Internal Audit manual.

#### **4.4 Financial Institutions Act Cap. 57**

S.61 of the Financial Institutions Act Cap. 57 requires every financial institution to appoint an internal auditor who is suitably qualified and experienced in banking. However, since these are generally classified as public interest entities, the requirements of S.34(2) of the Accountants Act 2013 Cap. 294 are applicable.

The core duties of internal auditors in financial institutions shall be to report to the board of directors on issues such as:

- i) The reliability of the information produced by accounting and computer systems;
- ii) The effectiveness, efficiency, and economy of operations;
- iii) Compliance with laws, policies, and operating instructions;
- iv) Any investigative services provided to line management; and
- v) Certification of returns submitted to the Central Bank by the financial institution.

#### **4.5 Cooperative Societies Act Cap. 107**

According to S.55K of the Cooperative Societies Act Cap. 107, every savings and credit cooperative society is required to appoint an internal auditor who is suitably qualified and experienced in banking, who reports to the committee on the audit of the board of directors<sup>2</sup>. The Cooperative Societies Act Cap. 107 clarifies the duties of the internal auditor to include:

- i) Evaluate the reliability of the information produced by accounting and computer systems;
- ii) Provide an independent appraisal function;
- iii) Evaluate the effectiveness, efficiency, and economy of operations;
- iv) Evaluate compliance with laws, policies, and operating instructions;
- v) Provide investigative services to line management; and
- vi) Certify returns submitted to the Registrar by the savings and credit cooperative society.

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<sup>2</sup> S. 55A of the Cooperatives Act 2020 defines a savings and credit cooperative society as a registered society for promoting and mobilizing savings and extending credit and financial services to its members.

#### **4.6 Insurance Act Cap. 191**

S. 61 of the Insurance Act Cap. 191 requires every insurer to establish and maintain:

- A risk management function
- A compliance function
- An actuarial function
- An internal audit function
- Other control functions as may be specified in the regulations made under this Act or as the insurer may consider appropriate for the nature, scale and complexity of its insurance business

As insurer is defined under the Insurance Act 2017 as a person who holds an insurer's license issued under S.35 (1). From the provisions highlighted above, it is clear that insurance companies are required to have well established internal audit functions.

#### **4.7 Uganda Retirement Benefits Regulatory Authority (Management and Operation of Retirement Benefits Schemes) Regulations 2020**

R. 8(f) of the Uganda Retirement Benefits Regulatory Authority (Management and Operation of Retirement Benefits Schemes) Regulations 2020 requires trustees of retirement benefit schemes to provide adequate risk management systems including internal audit systems.

#### **4.8 Kampala Capital City Act Cap. 195**

S.24 of the Kampala Capital City Act Cap. 195 provides for the establishment of an internal audit directorate within the Kampala Capital City Authority which is to be administratively supervised by the Executive Director and functionally by the Standing Committee of the Authority.

Part B of the Fifth Schedule of the KCCA Act further provides for the following departments at division urban councils:

- a) Administration and Human Resource Management;
- b) Finance;
- c) Public Health and Environment;
- d) Education and Social Services;
- e) Gender, Community Services and Production;
- f) Internal Audit.

#### **4.9 Companies Act Cap. 106**

Under the Companies Act Cap. 106, internal audit requirements apply to a public company through the adoption of Table F at the time of registration of its articles (S.14 of the Companies Act). Articles 13 and 14 specifically provide for internal audit requirements in public companies. Adoption of Table F is optional for private companies.<sup>3</sup>

Article 14.3 requires that internal audit plans be based on a risk assessment and include emerging and existing risks. The risk assessment shall be formally reviewed at least once a year. The internal audit work plan must be approved by the audit committee. Internal audit shall ensure that comprehensive assurance reviews are conducted by experts without any duplication.

Article 14 of the Act further details the desirable scope of internal audit functions. Effective internal audit functions should provide assurance that:

- i) Risk is adequately identified and monitored;
- ii) Internal control systems are effective;
- iii) Feedback on risk matters is effective; and
- iv) Management-generated information is reliable.

In situations where the board decides not to implement internal audit functions, Article 13 requires that an explanation for this be provided in the annual report and how effectiveness of processes and systems are tested.

#### **4.10 Public Procurement and Disposal of Public Assets (Procuring and Disposing Entities) Regulations 2023**

S.27 of the Public Procurement and Disposal of Public Assets (Procuring and Disposing Entities) Regulations 2014 requires the internal audit department of a procuring and disposal entity to audit:

- The procurement procedure used for the procurement and the payment made to establish whether the supplies, works or services are properly ordered, received, verified or paid for in accordance with the Public Financial and Accountability Act, 2003 and the other applicable laws; and

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<sup>3</sup> S.6 of the Companies Act 2012 defines a public company as a company that is not a private company. According to S.5 of the Companies Act, a private company is a company which by its articles:

- a) Restricts the right to transfer its shares and other securities;
- b) Limits the number of its members to one hundred, not including persons who are employed by the company and persons who, have been formerly employed by the company; and
- c) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

- The disposal procedure used for disposal to establish whether the disposal was appropriate and that where applicable, payment to the procuring and disposal entity was effected.

## 5.0 CONCLUSION

From the analysis of the various laws and regulations in the country, we see that there are provisions for the establishment of internal audit functions in most sectors. However, benchmarking against the IIA Legislative and Regulatory Guidelines shows that a lot more is required to ensure that the laws support internal auditors to work to their full potential of becoming trusted business advisors in their entities. The laws especially need to be amended to improve the independence of internal audit functions in the country.

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