INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

POSITION PAPER ON PRACTICE OF ACCOUNTANCY

2013

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EXECUTIVE SUMMARY

In order to clarify the scope of accountancy practice, the Institute of Certified Public Accountants of Uganda (ICPAU) seeks to define when you are, and when you are not, considered to be engaging in public practice.

This Position Paper also seeks to give interpretation to the phrase "Practicing Accountancy" as used in the Accountants Act, Cap 266 and other Regulations and Guidelines issued by the Institute.

This Paper aims at clearly identifying elements of services that if performed shall be deemed to amount to practice of accountancy by an individual.

In order to engage in accountancy practice, one is required to obtain a practicing certificate.

It is hoped that this paper will enable the public and the Institute membership to get a clear understanding and interpretation of what it means to practice accountancy in Uganda.

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1.0 INTRODUCTION

1.1 Establishment

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

(i) To regulate and maintain the Standard of Accountancy in Uganda;
(ii) To prescribe or regulate the conduct of accountants in Uganda.

ICPAU's Vision is:

"To be a World-class Professional Accountancy Institute".

ICPAU's Mission is:

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

1.2 Interpretation

In this Position Paper, unless the context otherwise requires—

a) "Act" means the Accountants Act, Cap 266;
b) "Accountant" means a Certified Public Accountant or an Associate Accountant registered under the Accountants Act, Cap 266;
c) "Council" means the Council of the Institute of Certified Public Accountants of Uganda;
d) "Entity" means a sole practice, partnership or any other entity used to provide accountancy services;
e) "Institute" means the Institute of Certified Public Accountants of Uganda ;
f) "Member", means is a full member of the Institute and includes an associate member of the Institute;
g) "Principal" means an individual in sole practice or a person who is a partner (including both salaried and equity partners) in an accountancy entity;
h) "Public practitioner" means an individual who provides accountancy services to clients in anticipation of reward.
i) "Client" means a body or person to whom an accountancy service is provided.

2.0 ACCOUNTANCY PROFESSION

Accountancy has been defined as the profession or duties of an accountant[1].

Accountancy has also been defined as "the art of recording, classifying, and summarizing in a significant manner and in term of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof"[2].

Accountancy in earlier days served mainly to assist the memory of the business persons then and the users for the accounts was the proprietor or record keeper alone. But with the emergency of multiple investors and the development of joint stock companies, wider audiences for accounts were created; as Investors without firsthand knowledge of their operations relied on accounts to gain an understanding the requisite information[3]. This later resulted in development of accounting and disclosure regulations and in a growing need for independent attestation of accounts by an external person/auditor.

The roles that Certified Public Accountants play, in whichever sector of the economy they work, are very diverse. Professional accountants work in virtually all sectors of the economy. They work in public practice, business and industry, in public sector and in education.

Certified Public Accountants therefore contribute to the growth of individual companies, support and sustain non-profit organizations, and assist governments in achieving their economic and social objectives. They contribute to financial market performance, through the reporting of, and providing assurance on, financial information on which investors and other stakeholders rely.

Certified Public Accountants generally provide services in the following general areas, including but not limited to:

2.1 Accounting

Accounting provides users with the quantitative financial information required to make business-related decisions.

[1] Oxford English Dictionary, Oxford University Press, 2012, www.oed.com.
[2] R. Singh Wahla, *AICPA committee on Terminology. Accounting Terminology Bulletin No. 1 Review and Résumé,* American Institute of Certified Public Accountants, 1953.
[3] B. G Carruthers & W. N. Espeland, *Accounting for Rationality: Double-Entry Bookkeeping and the Rhetoric of Economic Rationality*, American Journal of Sociology, Vol. 97, No. 1, July 1991.

The accounting system in an organisation serves to provide information in three broad areas:

- Internal routine reporting to managers to provide information and influence behaviour regarding cost management and the planning and controlling of operations;
- Internal non-routine, or special reporting to managers for strategic and tactical decisions on matters such as pricing products or services, choosing which products to promote, making capital investments and formulating overall policies and long-term plans; and
- External reporting through financial statements to investors, government authorities, creditors and other outside parties.

Accounting encompasses bookkeeping (ie, the entry of transactions in the accounting records) and the preparation of management or financial accounts.

2.2 Audit, Assurance and Advisory

Audit and assurance are the traditional functions of accountancy entities. The major purpose of assurance services is to provide independent and professional opinions that improve the quality of information to stakeholders, both internal and external to the business's operations.

An assurance engagement is one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.[4]

An audit is a reasonable assurance engagement which provides an unbiased examination and evaluation of the financial statements of an organisation. This adds credibility to the claim made by an organisation's management that the financial statements fairly represent the organisation's position and performance.

A practitioner may also perform limited assurance engagements primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework[5].

There are also other types of audits that can be performed by a practitioner including internal audit, system & management audit, income & expenditure audit, bank audit,

[4] IAASB, *International Framework for Assurance Engagements*, IFAC, July 2012.

[5] IAASB, *International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements,* IFAC, September 2012.

stock audit, etc. Audits can also be carried out in accordance with various regulations to independently verify the accounts of the business and the effectiveness of the operating controls.

2.3 Taxation Services

This generally focuses on helping clients optimise the use of existing tax laws in the assessment of tax liability. Taxation services cover a range of issues such as accounting for taxes on financial statements, the preparation of tax returns, ensuring these comply with the laws, consultancy in tax matters, tax planning, consultation on mergers & acquisitions, development of structures to minimise taxes, foreign taxation consultancy, transfer pricing matters, withholding tax compliance, fringe benefit tax compliance, advice during income tax appeals, personal wealth and estate planning, etc. It may also involve the representation of a client in a tax situation before a tax authority.

2.4 Forensic accounting

Forensic means "suitable for use in a court of law". This area of accountancy deals with fraud and describes engagements that result from actual or anticipated disputes or litigation. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial. Forensic accounting is a growing area of practice in which the knowledge, skills and abilities of advanced accounting are combined with investigative expertise and applied to legal problems. Forensic accountants are often asked to provide litigation support where they are called on to give expert testimony about financial data and accounting activities[6].

2.5 Finance, Risk Management and Transaction Services

Accountants may provide services such as:

- Advice on accounting and internal control systems.
- Analyzing historical and related future capital expenditures.
- Analyzing working capital to understand the impact on cash flows and to assist in setting working capital targets and preparation of cashflows and budgets.
- Assessing the quality of earnings and cash flow.
- Determining value drivers and key risk areas.
- Financial services and due diligence.
- Identifying asset and liability exposures.
- Identifying internal control weaknesses including observations on systems.

[6] D.L Crumbley, L.E Heitger, G.S. Smith, *Forensic and Investigative Accounting*, CCH Incorporated, 4025 W. Peterson Ave, Chicago, IL, 2005

- Mergers & acquisitions structuring.
- Performing market research.
- Reviewing company forecasts compared to historical results and trends in the industry.
- Provide strategic and financial advisory services, business valuation services, floatation/listing, private equity and buyouts, etc.
- Provide transaction structuring and deal financing assistance.
- Providing investment business advice.
- Providing business funding advice.

2.6 Management Consulting

Management consulting addresses a multitude of issues related to the overall performance and direction of a company's business. These include systems integration, business strategy, human resources consulting, communications consulting, operations consulting, marketing consulting, organizational development consulting, small business consulting, strategic planning consulting, e-commerce, technology and any other areas in which organizations require professional advice.

Management consulting enables business to improve their performance, primarily through the analysis of existing business problems and development of plans for improvement. Accountants provide business change management assistance, development of coaching skills, technology implementation, strategy development, or operational improvement services. They often bring their own proprietary methodologies or frameworks to guide the identification of problems, and to serve as the basis for recommendations for more effective or efficient ways of performing work tasks.

Accountants may also offer financial, economic and various data services to companies involved in litigations, mediations, arbitrations and other forms of dispute resolution.

2.7 Insolvency Practice

Prior to enactment of the Insolvency Act, 2011, there was no specific insolvency legislation, no proper statutory definition of insolvency, no regulation of professional insolvency practice and no provisions for dealing with cross border insolvency issues. The Insolvency Act, 2011, streamlined the laws relating to insolvency into one code and has created qualifications and provisions for regulation of Insolvency Practitioners[7].

The law defines Insolvency Practitioners to include accountants who are members of their professional bodies and have professional indemnity insurance.

[7] J. Murabula, *Insolvency Practice in Uganda,* Today's Accountant, Institute of Certified Public Accountants of Uganda, July-Sept 2012.

2.8 Compilation Engagements

Management may request a practitioner to assist with the preparation and presentation of financial information of an entity. A Certified Public Accountant is able to apply their professional expertise in accounting and financial reporting and therefore add value to the organisation's financial report.

A compilation engagement is not an assurance engagement. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management, or to otherwise gather evidence to express an audit opinion[8].

3.0 ACCOUNTANCY SERVICES

Accountancy services means:

- the preparation of financial records, returns, statements or information;
- the provision of consultancy or advice concerning accounting, auditing, insolvency or taxation matters;
- the representation of a client to/before third parties in matters concerning accounting, auditing, insolvency or taxation; or
- insolvency practice; or
- the provision of a service that requires a specific licence/certificate that the Institute can provide.

Accountancy services therefore means the provision of: one or more types of services involving the use of accounting or auditing skills; one or more types of management, financial advisory or consulting services; the preparation of tax returns; the furnishing of advice on tax matters; compilation of financial information; insolvency practice; and any other related services.

4.0 PRACTISING ACCOUNTANCY

In order to clarify the scope of public practice, the Institute has produced this Position Paper which seeks to define when you are, and are not, considered to be engaging in accountancy practice. Accountancy practice or practice of accountancy means offering to perform or performing accountancy services, for a client or potential client.

Section 20 (2) of the Accountants Act, Cap 266 states that a person shall be deemed to practice accountancy if he or she, for payment, whether by himself or herself or in partnership with another person—

[8] IAASB, *International Standard on Related Services 4410 (Revised)-Compilation Engagements,* IFAC, March 2012.

(a) offers to perform or performs services involving the auditing, verification or certification of financial accounting or related statements;
(b) renders professional service or assistance on matters of principle, accounting procedure or certification of financial facts or data; or
(c) renders any service which in accounting principles or byelaws made by the council are services amounting to practising accountancy.

Section 20 (1) of the Act states that, "No person shall practise accountancy in Uganda unless he or she possesses a practising certificate or a practising licence issued under the Act."

Section 20 (3) of the Accountants Act states that, "A public officer or any other employee shall not be deemed to have practiced accountancy if, through the course of his or her employment, he or she does any of the acts referred to in subsection (2).

One should consider the contents of this Position Paper including the Appendix I (*Accountancy Services*) attached, in concluding whether one is or is not engaged in practicing accountancy and therefore in need of a practising certificate or not. Your considerations should also cover all the roles that you have, as a practising certificate may be needed for any of them. This Position Paper should be read in conjunction with the Audit Practice Guidelines issued by Institute. Appendix II (*Guidance on Public Practice for Accountancy Services*) provides illustrations on possible scenarios to be considered in deciding whether or not one is engaged in public practice.

5.0 GUIDANCE ON PRACTICE OF ACCOUNTANCY

A member who is deemed to practice accountancy must hold a practising certificate issued under the Act. It does not matter if the individual member is not directly providing accountancy services. It is sufficient that the member is a principal in an entity that provides such services.

Accountancy services have to be provided in anticipation of reward for a member to be engaged in public practice. A member who is employed to provide accountancy services to his employer would not normally engage in public practice. For the purposes of deciding if a practising certificate is needed, employment includes situations where the relationship between the member and the recipient of the accountancy services is similar to that of an employer-to-employee.

The following is a useful criteria by which to determine whether or not one is practicing accountancy[9]:

- Is the member paid for the providing accountancy or related services on his or her account or through a legal entity in which the member has ownership stake?

[9] ICAS, *Guide: When is a Practicing Certificate Required*?, The Institute of Chartered Accountants of Scotland, Edinburgh, United Kingdom, May 2010

- Does the member require professional indemnity insurance because he or she is liable for the work?
- If a member remains in doubt as to whether his activities amount to engaging in public practice, he should contact Institute.

6.0 CONCLUSION

It is widely recognised that the accountancy profession has responsibilities to "all society in relation to action, decision or policy". Certified Public Accountants should:

- Provide sound financial, non-financial, and government reporting to stakeholders, investors, taxpayers, and all parties in the marketplace directly and indirectly impacted by financial and non-financial reporting from all organizations, across all sectors, and spanning all sizes, including public sector institutions; and
- Provide truthful, effective communication with parties (e.g. boards, stakeholders, management, and others) directly and indirectly related to the corporate governance processes for which they are accountable[10].

High quality performance by Certified Public Accountants benefits the economy and society as a whole by contributing to the efficient allocation and management of resources in both the private and public sectors. In these ways and others, Certified Public Accountants contribute to the growth of economies and ultimately to the well being of society.

The accountancy profession has experienced major changes in the nature and scope of services provided in recent years.

ICPAU members must therefore revolutionize their thinking not only to endure the pace of this change, but to thrive on it. As businesses become more complex and technology advances, Certified Public Accountants must work more creatively to embrace these changes.

[10] IFAC, *IFAC Policy Position 5 – A Definition of the Public Interest,* The International Federation of Accountants, New York, USA, June 2012.

APPENDIX 1 ACCOUNTANCY SERVICES

1	Preparation of management or financial accounts
2	External audit and assurance services
3	Internal audit of accounting and internal control systems
4	Advice or consultancy on accounting and financial reporting systems
5	Payroll services
6	Dealing with personal/business tax returns
7	Providing tax advice
8	Representing a client in a tax situation (eg. client is having an investigation and needs someone to deal with the tax authorities)
9	Investment business advice undertaken under a licence from a Designated Professional Body
10	Preparation of cash flows and budgets
11	Business funding advice, except where the purpose of the advice is to actively seek/negotiate the source of funds
12	Due diligence (i.e., investigations into the accounting or financial aspects of a transaction such as a company take over)
13	Preparation of business plans
14	Management consulting on accountancy activities
15	Accepting insolvency appointments
16	Debt counselling
17	Valuing incorporated and unincorporated businesses, shares and related instruments, and intangible assets
18	Compliance services (including file reviews) supplied to firms of accountants
19	Forensic accounting

The following are not regarded as accounting services.

- acting as a trustee
- training services to accounting firms or students
- business funding advice where this only involves seeking/negotiating the source of funds
- management consulting on non-accounting matters
- company secretarial matters
- computer hardware and software installation
- computer training

APPENDIX 2: GUIDANCE OF PUBLIC PRACTICE FOR ACCOUNTANCY SERVICES

The following is a list of common situations which members may find useful in deciding if they are engaged in public practice. (Depending on the example, the assumption is that the member concerned is not already in public practice.)

	MEMBER ROLE	**PRACTISING CERTIFICATE NEEDED OR NOT**
1	My only role is as the marketing principal in a public practitioner.	The role of the individual practitioner is irrelevant. If you are a public practitioner, you need a practising certificate.
2	I act as an expert in tax matters for other firms of chartered accountants.	If your relationship to the other firms is as a principal, then you are engaged in public practice and need a practising certificate.
3	I am an employee of an audit firm.	You are not required to obtain a practising certificate.
4	I provide audit review services etc. to firms of Certified Public Accountants.	If you are acting on your own account as a principal in relation to those other firms, you are engaged in public practice and need a practising certificate.
5	I accept insolvency appointments and provide insolvency services.	You are required to obtain a practising certificate.
6	I have retired but remain with my former practice as a consultant.	As you are no longer a principal then you do not meet the definition of being in practice so no practising certificate is needed. However, you should be careful that you are not held out as a principal by the firm as this could have other legal consequences, as well as bringing you back into the definition of a principal and so needing a practising certificate.

7	I am the finance director of a company that has nothing to do with providing accountancy services.	Principals (including directors) do not need a practising certificate unless the activities of the business meet the definition of a public practitioner.
8	I act as an interim manager, either personally or through a corporate entity, to businesses. In this relationship, the businesses effectively act as my employer and I effectively work as an employee.	If your relationship to the entities that you work for is not a principal/client relationship, then you are not engaged in public practice and do not need a practising certificate.
9	I give time voluntarily to act as a trustee (or treasurer) of a charity and this involves preparing the entity's accounts.	You are not acting in a public practice role and do not need a practising certificate.
10	I act as a subcontractor providing accountancy services to an accountancy firm. In such working relationships, the firm effectively acts as my employer and I effectively work as an employee.	You are not holding yourself out, or being held out, as providing accountancy services to third parties so you are not in public practice and do not need a practising certificate.

***Note**: The list above is an illustration of the possible scenarios one may face. If you are not sure about your circumstance, please contact the Institute.*

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