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Theme: Strengthening Accountability, Sustainability, and Professionalism
through Evidence-Based Research

CONFERENCE PROCEEDINGS

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FOREWORD

The Research Panel of the Institute of Certified Public Accountants of Uganda (ICPAU) presents the proceedings of its 1st Research Conference held on 14 November 2025 as a key milestone in promoting research, thought leadership, and evidence-based practice in the accountancy profession.

The conference brought together diverse stakeholders to address emerging issues under the theme of strengthening accountability, sustainability, and professionalism. The papers in the proceedings focus on critical areas such as Artificial Intelligence, ethical governance, internal audit, financial inclusion, and ESG reporting—highlighting both opportunities and challenges shaping the profession.

Collectively, the studies emphasize the ongoing transformation of accountancy toward digital innovation, ethical responsibility, governance leadership, and sustainability. They underscore the need for policy development, continuous professional training, and stronger institutional frameworks.

The Research Panel commends all authors for their scholarly rigor, intellectual contribution, and commitment to advancing knowledge. We also extend our sincere appreciation to the reviewers, conference participants, and stakeholders whose engagement enriched the quality of discourse.

As ICPAU continues to strengthen its research agenda, these proceedings serve not only as a record of academic inquiry but also as a call to action—for practitioners, policymakers, and educators to embrace innovation, invest in capacity building, and collaboratively shape the future of the profession.

We trust that this publication will inspire further research, inform policy development, and contribute meaningfully to professional practice in Uganda and beyond.

Research Paper 1:

READINESS FOR EMBRACING ARTIFICIAL INTELLIGENCE: TRANSFORMING THE ACCOUNTANCY PROFESSION FOR A SUSTAINABLE FUTURE

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Abstract

The rapid advancement of Artificial Intelligence (AI) is reshaping the global accountancy profession. However, empirical evidence on AI readiness in developing economies remains limited. This study explores how senior public-sector accountants in Uganda perceive the adoption of AI and the challenges associated with its implementation. Using a qualitative exploratory design, semi-structured interviews were conducted with 15 senior accountants. Thematic analysis revealed four key themes: (1) a significant awareness-adoption gap, (2) institutional barriers including budgetary constraints and absence of a national digital strategy, (3) a pronounced skills gap in data analytics and cybersecurity, and (4) the critical leadership role of the Institute of Certified Public Accountants of Uganda (ICPAU). Findings indicate that while conceptual openness toward AI exists, institutional and human-capital limitations significantly hinder implementation. The study concludes that professional bodies must champion policy development and mandatory training to secure the profession's future relevance.

Keywords: *Artificial Intelligence, Public Sector Accounting, Digital Transformation.*

Background of the Study

Artificial Intelligence (AI) has emerged as a transformative force across industries, including accounting. AI-driven systems automate routine tasks, enhance fraud detection, enable predictive analytics, and support real-time financial decision-making (Thomas H. Davenport & Rajeev Ronanki, 2018; McKinsey & Company, 2023). In the accounting profession, AI applications increasingly support audit automation, anomaly detection, tax analytics, and financial forecasting (International Federation of Accountants [IFAC], 2023).

Globally, professional bodies such as the Association of Chartered Certified Accountants (ACCA) and International Federation of Accountants emphasize digital transformation and AI readiness as critical for long-term professional sustainability (ACCA, 2023; IFAC, 2023). The profession is transitioning from traditional bookkeeping to strategic advisory roles supported by intelligent technologies.

In developed economies, AI integration is progressing toward responsible AI governance, ethical frameworks, and sustainability reporting integration (Organisation for Economic Co-operation and Development [OECD], 2023). However, developing economies face infrastructural, regulatory, and human capital challenges that slow adoption (United Nations Conference on Trade and Development [UNCTAD], 2022). Digital divides, weak ICT infrastructure, and limited AI policy frameworks constrain effective implementation.

Uganda's public sector, which plays a central role in financial governance and accountability, presents a unique context for examining AI readiness. While Uganda has made progress in e-government and integrated financial management systems, empirical research on AI adoption within public-sector accounting remains scarce. Despite global momentum, limited evidence exists on how Ugandan public-sector accountants perceive and respond to AI-driven transformation.

Research Problem

The Ugandan accountancy profession faces a significant practice challenge: while global accounting systems increasingly integrate AI technologies, public-sector institutions in Uganda remain at a foundational stage of digital transformation.

Globally, AI is reshaping audit, taxation, and financial management functions (Davenport & Ronanki, 2018; IFAC, 2023). However, public institutions in many developing countries struggle with digital infrastructure gaps, rigid procurement systems, and limited innovation financing (UNCTAD, 2022).

Although accountants may demonstrate awareness of AI's potential benefits—such as efficiency gains, fraud detection, and improved forecasting—actual adoption remains minimal in Uganda's public sector. Institutional constraints, including rigid budgeting frameworks, absence of coordinated AI strategies, and inadequate technological infrastructure, hinder implementation. Furthermore, skills deficits in data analytics, cybersecurity, and AI literacy pose risks to professional relevance (ACCA, 2023).

Without structured intervention, the Ugandan accountancy profession risks lagging behind global standards, potentially undermining efficiency, competitiveness, and public-sector accountability.

Objectives

General Objective

To evaluate the readiness of the Ugandan public-sector accounting profession to adopt Artificial Intelligence.

Specific Objective

To determine the key available and proposed drivers, challenges, and skill gaps of AI adoption for public-sector accountants in Uganda.

Rationale

While global research extensively examines AI adoption in developed economies (OECD, 2023; McKinsey & Company, 2023), there is limited context-specific empirical analysis for developing countries, particularly within sub-Saharan Africa. Reports by ACCA (2023) and IFAC (2023) provide strategic global insights but lack empirical grounding in Uganda's public-sector environment.

This study addresses this gap by generating empirical evidence from senior public-sector accountants in Uganda. It identifies structural and institutional drivers, implementation challenges, and AI-related skill gaps specific to developing economies. The findings could inform national policy formulation, public-sector digital transformation strategies, and professional training initiatives tailored to Uganda's realities.

Methods

Research Design

A qualitative exploratory design was employed to gain in-depth insights into drivers, institutional challenges, and professional skill gaps of AI adoption.

Participants

Fifteen (15) senior public-sector accountants were selected through purposive sampling. Inclusion criteria required participants to:

- Hold managerial or supervisory roles
- Possess at least five years of professional experience

Data Collection

Semi-structured interviews lasting 45-60 minutes were conducted either face-to-face or via videoconferencing.

Data Analysis

Data was analysed using Braun and Clarke's (2006) six-step thematic analysis framework, enabling identification of recurring themes and patterns.

Findings

Four major themes emerged:

1. Available and Proposed Drivers

Participants demonstrated high conceptual awareness of AI's efficiency and automation potential. However, implementation remains limited to basic non-AI digital systems. This reveals a disconnect between knowledge and operational integration.

Participants emphasized that ICPAU must lead through:

- Development of AI-related ethical guidelines
- Mandatory Continuing Professional Development (CPD) in AI-related skills
- Policy advocacy with government ministries

2. Institutional Challenges

Significant constraints include:

- Fixed and inflexible public-sector budgets
- Lack of a centralized government digital transformation policy
- Infrastructure deficiencies
- Resistance to change driven by job-security concerns

These factors collectively stall AI adoption.

3. Professional AI Skills Gap

Respondents agreed that accounting roles are evolving toward data analytics and strategic advisory functions. However, a pronounced skills deficit exists in:

- Data analytics
- Cybersecurity
- AI literacy

Without targeted training, accountants risk professional obsolescence.

Conclusion

The Ugandan public sector remains at an early stage of AI integration. Although awareness of AI's transformative potential is high, institutional, policy, and human-capital barriers significantly hinder implementation.

However, Uganda presents a “leapfrog” opportunity: by learning from global experiences and proactively building digital capacity, the profession can tailor AI integration to local needs and strengthen public-sector accountability.

Recommendations

1. **Dedicated Budgetary Allocation**
Public institutions should allocate specific budget lines for technological upgrades and AI readiness initiatives.
2. **Policy Development**
ICPAU should establish a multi-stakeholder task force to collaborate with government ministries in developing a national AI implementation framework for public-sector accounting.
3. **Mandatory CPD Programs**
ICPAU should integrate compulsory CPD modules in data analytics, cybersecurity, and AI literacy.

Implications to the Accountancy Profession

- The accountant’s role must transition from transactional processing to strategic advisory and data-driven analysis.
- Professional sustainability depends on continuous technological upskilling.
- Ethical oversight of AI systems will become a core professional responsibility.
- Failure to adapt risks marginalization in an increasingly automated global financial environment.

Proactive adaptation positions accountants as custodians of digital governance and public trust.

Tips on Further Related Research

- **Quantitative Validation:** A nationwide survey could statistically validate readiness levels and skill gaps.
- **Sectoral Comparisons:** Comparative studies between public and private sectors could reveal differential adoption patterns.
- **Regional Studies:** Cross-country studies within East Africa could illuminate shared structural barriers.
- **Impact Studies:** Longitudinal research could assess the effects of AI training interventions on professional performance.

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Research Paper 2:

AI AND ACCOUNTING ETHICS: NAVIGATING ETHICAL CHALLENGES IN ALGORITHMIC DECISION-MAKING

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Abstract

The integration of Artificial Intelligence (AI) into accounting has transformed financial reporting, auditing, taxation, and advisory services through enhanced efficiency, automation, and analytical capacity. However, the rapid deployment of AI systems introduces significant ethical challenges, including algorithmic bias, opacity of decision-making processes, data privacy risks, diminished professional skepticism, and accountability gaps. This study systematically reviews academic literature, professional standards, regulatory developments, and documented case studies to examine the ethical implications of AI in accounting. Using qualitative thematic analysis, the paper identifies core ethical concerns and proposes a structured conceptual framework to guide responsible AI integration. The framework is anchored on principles of transparency, accountability, fairness, confidentiality, integrity, sustainability, and human-AI collaboration. Findings indicate that while AI enhances fraud detection, reporting accuracy, and efficiency, its misuse or unregulated adoption may undermine public trust in financial systems. The study concludes that ethical governance, continuous professional development, regulatory alignment, and proactive oversight are essential to ensure that AI utilization does not compromise professional judgment.

Keywords: *Artificial Intelligence, Accounting Ethics, Algorithmic Bias, Governance, Transparency, Professional Judgment.*

Background of the Study

Artificial Intelligence (AI) has become a transformative force in contemporary accounting practice. From automated data capture and invoice processing to predictive analytics and fraud detection, AI-driven tools increasingly perform tasks that traditionally required substantial human input (Kokina & Blanchette, 2019; Sutton, Holt, & Arnold, 2016). Machine learning, natural language processing, robotic process automation, and predictive analytics are now embedded within enterprise resource planning (ERP) systems, audit platforms, and taxation software (Alles & Gray, 2016; Issa, Sun, & Vasarhelyi, 2016).

AI enhances operational efficiency, reduces human error, accelerates reporting cycles, and strengthens anomaly detection (Appelbaum, Kogan, & Vasarhelyi, 2017). In auditing, AI systems can analyze entire populations of transactions rather than relying on sampling techniques, thereby improving audit quality and assurance coverage (Issa et al., 2016). In taxation and compliance, automated systems assist with risk profiling and regulatory monitoring (Alles, 2015). In advisory services, AI-powered analytics provide strategic forecasting and data-driven decision support (Davenport & Ronanki, 2018).

Despite these advantages, ethical concerns have intensified. AI systems may embed algorithmic bias, operate as opaque “black boxes,” mishandle confidential financial data, or produce outputs that professionals may accept without adequate scrutiny (O’Neil, 2016; Mittelstadt et al., 2016). The opacity of algorithmic systems raises accountability and explainability concerns, particularly in financial reporting and audit contexts where transparency is paramount (Burrell, 2016). Public confidence in financial reporting depends on integrity, transparency, objectivity, and professional competence—core values that must remain safeguarded amid technological transformation (International Ethics Standards Board for Accountants [IESBA], 2023).

The profession therefore faces a dual responsibility: embracing technological innovation while preserving ethical standards and maintaining public trust (ACCA, 2020).

Research Problem

The rapid adoption of AI in accounting presents interconnected ethical dilemmas that challenge the profession’s traditional foundations. These include algorithmic bias and discriminatory outcomes (O’Neil, 2016); lack of transparency and explainability in AI-driven outputs (Burrell, 2016); over-reliance on automated systems at the expense of professional skepticism (Issa et al., 2016); data privacy and cybersecurity vulnerabilities (Mittelstadt et al., 2016); unclear accountability for AI-generated decisions; and workforce displacement risks that may erode professional judgment (Frey & Osborne, 2017).

Although AI technologies promise efficiency and enhanced decision-making, insufficient ethical governance may compromise financial integrity and public trust (ACCA, 2020). Currently, the accounting profession lacks a consolidated framework that systematically identifies ethical risks associated with AI use while providing structured guidance for responsible innovation. This gap necessitates rigorous academic inquiry and the development of a tailored conceptual framework to guide ethical AI deployment in accounting practice.

General Objective

To explore professional ethical challenges associated with integrating AI into algorithmic decision-making in accounting and to propose mechanisms for addressing these challenges.

Specific Objectives

1. To examine the ethical dilemmas arising from AI adoption in accounting practice.
2. To develop a conceptual framework for ethical AI deployment in accounting.

Rationale

This study addresses several critical gaps: Limited empirical and conceptual knowledge of AI-specific ethical risks within accounting practice; absence of a structured ethical governance framework tailored to accounting; and increasing need for professional guidance that balances automation with human oversight, accountability, and professional skepticism (IESBA, 2023; ACCA, 2020).

By synthesizing academic literature, professional regulatory discourse, and technological governance models, this research aims to provide a comprehensive ethical roadmap to guide responsible AI integration in accounting.

Methods

This study employed a systematic literature review combined with qualitative thematic analysis and case study evaluation.

Research Design

A qualitative, multidisciplinary review integrating academic literature, regulatory documents, and professional reports.

Data Collection

Twenty peer-reviewed articles, professional publications, regulatory documents, and documented case studies were systematically reviewed.

Findings

The findings reveal that AI integration presents both transformative benefits and serious ethical vulnerabilities, which include the following:

1. Algorithmic Bias

AI systems may reproduce biases embedded in training data, leading to discriminatory or misleading outputs. Cases such as biased recruitment algorithms illustrate how unchecked data can distort decision-making. Continuous bias audits and diversified datasets are necessary safeguards.

2. Transparency and Explainability

Opaque AI systems undermine accountability. Financial reporting requires explainable outputs that can be scrutinized and audited. Explainable AI tools and disclosure mechanisms are essential.

3. Data Privacy and Security

AI's reliance on large datasets heightens exposure to cyber threats and privacy breaches. Compliance with global data protection regulations and strong encryption mechanisms is critical.

4. Accountability Gaps

AI cannot assume professional responsibility. Accountants remain legally and ethically accountable for outputs generated under their supervision.

5. Over-Reliance on Automation

Excessive trust in AI may erode professional skepticism. Human oversight remains indispensable in auditing, taxation, and financial reporting.

Possible interventions

1. Workforce Transformation

While AI automates routine tasks, it elevates demand for higher-order competencies such as data analytics, strategic advisory, and ethical oversight.

2. Regulation and Governance Lag

Technological evolution often outpaces regulatory adaptation, creating oversight gaps. Continuous updating of professional standards is necessary.

Conclusion

AI offers transformative potential for the accounting profession by enhancing efficiency, fraud detection, and analytical capacity. However, ethical risks—including bias, opacity, privacy violations, and accountability gaps—pose serious threats to professional integrity and public trust.

The profession's sustainability depends not merely on technological adoption but on ethical governance. AI must complement—not replace—human judgment. Accountants retain ultimate responsibility for ensuring transparency, fairness, integrity, and accountability in financial systems.

A structured ethical framework is essential to balance innovation with responsibility.

Recommendations

1. Establish AI Ethics Governance Structures within accounting firms and institutions.
2. Adopt Explainable AI Tools to enhance transparency and auditability.
3. Mandate Continuous Professional Development in AI literacy and ethical oversight.
4. Implement Algorithm Audits and Bias Testing before deployment.
5. Strengthen Data Protection Mechanisms through encryption and regulatory compliance.
6. Promote Human-AI Collaboration Models to preserve professional skepticism.
7. Update Professional Standards to incorporate AI-specific ethical guidance.

Implications to the Accountancy Profession

- Reinforces the accountant's enduring responsibility for public trust.
- Elevates ethical literacy as a core professional competency.
- Redefines the accountant's role toward strategic analysis and AI oversight.
- Encourages collaboration between regulators, educators, and AI developers.
- Positions ethical governance as central to sustainable professional relevance.

Tips on Further Related Research

- Empirical studies examining AI ethics implementation in accounting firms.
- Quantitative research assessing AI literacy levels among accountants.
- Comparative regulatory analysis across jurisdictions.
- Longitudinal studies on AI's impact on professional judgment.
- Investigation into sustainability implications of AI in financial reporting.

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Research Paper 3:

THE ROLE OF INTERNAL AUDIT IN THE GOVERNANCE OF REGULATED NON-DEPOSIT TAKING INSTITUTIONS IN UGANDA

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Abstract

Uganda's non-deposit-taking microfinance institutions (NDTMFIs) are pivotal to financial inclusion, reaching an estimated 70% of adults, especially in rural areas, yet many operate with weak internal controls, limited board independence, and fragile oversight. Recent restructuring of the Uganda Microfinance Regulatory Authority (UMRA) into the Ministry of Finance has further raised concerns about supervisory autonomy and Tier 4 enforcement. This study addresses the under-examined role of internal audit in strengthening governance within regulated NDTMFIs. Anchored in agency, institutional, stakeholder and behavioural theories, it employs a qualitative design with cross-sectional, semi-structured interviews of meso-level actors (regulators, associations, funders, external auditors) and micro-level actors (non-executive directors, senior managers). Data were analyzed using the Gioia methodology to move from informant terms to second-order themes and aggregate dimensions.

Findings show notable strengths: formal boards, AMFIU membership, and growing CSR/ESG activity, but persistent weaknesses: CEO dominance over audit processes, under-resourced audit functions, inconsistent implementation of controls, and fragmented regulatory guidance. In response, the study proposes an Enhanced Governance Framework with three linked components. Enablers prioritize digital efficiency, capital diversification, and purpose-aligned partnerships. Proposed standards emphasize audit independence, board competence and accountability, and clarified regulatory mandates proportionate to NDTMFI capacity.

The framework positions internal audit as a practical driver of governance reform and offers a sequenced roadmap for policymakers, regulators, and practitioners. While grounded in Uganda, the approach is transferable to similar inclusive-finance contexts across developing economies.

Keywords: *Internal audit; corporate governance; microfinance; NDTMFIs; Tier 4 MFIs Act; institutional theory; agency theory; Uganda.*

Background of the Study

Microfinance Institutions (MFIs) have become critical drivers of socioeconomic transformation and financial inclusion across both developed and developing countries (Maeenuddin, Hamid, Fahlevi, Nassir & Hashim, 2023; Sekabira, 2013). Their emergence can be traced to the pioneering work of Nobel Peace Prize laureate Muhammad Yunus in the 1970s, whose Grameen Bank model in Bangladesh introduced peer-monitored microcredit to empower disadvantaged women and rural households excluded from formal finance (Aninze, El-Gohary & Hussain, 2018; Lwesya & Mwakalobo, 2023). This innovation, based on social collateral and progressive lending, inspired similar models worldwide, laying the foundation for modern microfinance. From these beginnings, MFIs have pursued what scholars call the “double bottom line”, achieving both financial sustainability and social impact (Im & Sun, 2015; Rasel & Win, 2020), and, more recently, the “triple purpose” that incorporates environmental performance into their objectives (Allet & Hudon, 2015; Forcella & Hudon, 2016).

Attaining these multidimensional goals requires robust governance systems that can reconcile diverse and sometimes conflicting priorities (Hermes, Lensink & Meesters, 2011; Mersland & Beisland, 2011). The importance of governance is underscored by global corporate failures in the 1990s and during the 2008 financial crisis, where weak oversight undermined investor confidence and institutional legitimacy (Hilton & Arkorful, 2021). Scandals involving Enron, WorldCom, and Lehman Brothers triggered reforms such as the Sarbanes-Oxley Act (2002) and the OECD Principles of Corporate Governance (1999, 2004), which emphasized accountability, transparency, and effective risk management (Antwi, Carvalho & Carmo, 2022; Park & Lee, 2021). These principles are equally applicable to MFIs, which remain vulnerable to governance lapses that compromise both outreach and sustainability (Detthamrong, Nguyen & Chansanam, 2023).

Uganda provides a salient context for examining these dynamics. The financial sector is organized under a four-tier framework: commercial banks, credit institutions, and deposit-taking MFIs fall under the Bank of Uganda (BoU), while non-deposit-taking MFIs (NDTMFIs) are regulated by the Tier 4 MFI Act (2016) through the Uganda Microfinance Regulatory Authority (UMRA) (BoU, 1999). NDTMFIs are especially critical, serving over 70% of the

country’s adult population, primarily rural, low-income households (FSDU, 2024; Kabuye, Alinda, Bugambiro & Kezaabu, 2021). Yet despite their importance, these institutions face persistent governance challenges, including weak internal controls, limited accountability, and fragile oversight mechanisms. Portfolio-at-risk levels consistently exceed 10%, well above the global benchmark of 3%, while annual client attrition reaches nearly 25% (Agasha, Monamesti & Feela, 2020; Sekabira, 2013). Such vulnerabilities pose systemic risks to Uganda’s financial ecosystem (Aliija & Muhangi, 2017).

Regulatory oversight has also shown signs of fragility. In 2025, UMRA was restructured into a department within the Ministry of Finance, Planning and Economic Development (MoFPED), reducing its independence and raising concerns about regulatory effectiveness (Mulira, 2024). While BoU’s Consolidated Corporate

Governance Guidelines (2022) aim to standardize governance practices, many NDTMFIs continue to struggle with implementation, particularly with respect to audit independence, board effectiveness, and risk oversight (Ssekiziyivu, Mwesigwa, Bananuka & Namusobya, 2018). These shortcomings highlight the need for strong internal governance mechanisms to compensate for weak external regulation.

From a conceptual perspective, agency theory (Jensen & Meckling, 1979) and institutional theory (DiMaggio & Powell, 1983) provide useful lenses for analyzing these governance deficits. Agency theory explains how divergent interests between principals (owners, boards, donors) and agents (management) can lead to opportunism and inefficiency, particularly in NDTMFIs characterized by donor dependence and limited transparency. Institutional theory highlights how external pressures, regulatory reforms, donor expectations, and normative industry standards often produce symbolic adoption of governance structures without substantive change. Complementary insights from stakeholder theory (Freeman, 1984; Freeman & Dmytriiev, 2017) and behavioral theory (Cyert, 1963; Rahman, Delwar Hussain & Hossin, 2019) enrich this perspective by recognizing both the competing interests of diverse stakeholder groups and the bounded rationality of boards and auditors operating under resource constraints.

Internal audit emerges as a vital governance lever in this environment. Its role has evolved beyond compliance and financial verification to encompass strategic oversight, risk management, stakeholder engagement, and assurance of governance effectiveness (Gramling, Maletta, Schneider & Church, 2004; Handoyo, 2024). The Global Internal Audit Standards (2024) reaffirm the importance of board support in ensuring internal audit's independence and elevating its strategic contribution. Yet in many MFIs, audit remains marginalized reporting to management rather than boards, and lacking authority to influence institutional direction (Chambers & Odar, 2015; Ssekiziyivu et al., 2018). This limits its capacity to mitigate agency conflicts, strengthen accountability, and reinforce institutional legitimacy.

Despite its potential, little empirical, theory-driven research has examined the role of internal audit in strengthening governance in regulated MFIs, particularly in Sub-Saharan Africa (Alzeban, 2020; Kaawaase, Nairuba, Akankunda & Bananuka, 2021). Existing studies focus either on governance structures or audit functions in isolation, overlooking their intersection in contexts characterized by fragile regulation and multi-stakeholder complexity (Rasel & Win, 2020). Addressing this gap, the present study investigates how internal audit can enhance governance in Uganda's regulated NDTMFIs.

Research Problem

Despite regulatory frameworks and formal governance structures, many Non-Deposit Taking Microfinance Institutions (NDTMFIs) in Uganda experience persistent governance weaknesses, including CEO dominance over audit processes, limited audit independence and board oversight, under-resourced internal audit units, inconsistent implementation of internal controls, fragmented regulatory guidance, and costly compliance burdens for smaller institutions. Similar governance challenges have been observed in microfinance and emerging financial sectors,

where oversight mechanisms are often constrained by institutional capacity and regulatory complexity (Muriithi, 2021; World Bank, 2022).

Weak internal audit independence and insufficient board support reduce the effectiveness of governance structures and increase agency risks (Eulerich, Kremin, & Wood, 2019; IIA, 2023). Research further shows that internal audit effectiveness depends significantly on organizational status, competence, resourcing, and the strength of audit committee oversight (Abbott, Daugherty, Parker, & Peters, 2016; Drogalas, Pazarskis, & Anagnostopoulou, 2019). In developing economies, regulatory fragmentation and compliance burdens may disproportionately affect smaller regulated entities, limiting their ability to maintain robust governance systems (IMF, 2023).

These weaknesses undermine accountability, financial sustainability, and stakeholder trust. While internal audit is theoretically positioned to mitigate agency conflicts and strengthen oversight (Trotman & Trotman, 2015; Eulerich et al., 2019), its practical role and effectiveness within Uganda's Tier 4 institutions remain under-examined in contemporary literature.

Main Objective

To examine how internal audit can strengthen governance in regulated NDTMFIs in Uganda.

Specific Objectives

1. To identify ideal practices in internal audit within regulated NDTMFIs in Uganda.
2. To identify systemic gaps affecting internal audit effectiveness in strengthening governance in regulated non-deposit taking institutions.

Rationale

This study responds to several important gaps: limited empirical research on internal audit performance in African microfinance and Tier 4 regulatory contexts (Muriithi, 2021); insufficient integration of governance theory with applied audit practice (Eulerich et al., 2019); and minimal examination of the interaction between regulation, board oversight, and audit independence in emerging financial sectors (IIA, 2023; IMF, 2023).

By integrating agency theory, institutional theory, stakeholder theory, and behavioral governance perspectives, the study bridges theoretical insights with sector-specific application and contributes evidence to inform regulators, boards, and practitioners in Uganda's regulated microfinance sector.

Methods

A qualitative, inductive design was adopted.

Research Design

Cross-sectional semi-structured interviews were conducted with 39 participants (26 micro-level; 13 meso-level actors).

Sampling

Purposive sampling selected 10 NDTMFIs from 150 registered institutions. Participants included non-executive directors, executive directors, senior managers, regulators, funders, and external auditors.

Data Collection

Interviews were conducted between August and November 2024 via Microsoft Teams, telephone, and in person.

Data Analysis

The Gioia methodology structured analysis into:

1. First-order informant concepts
2. Second-order theoretical themes
3. Aggregate governance dimensions

Triangulation with regulatory documents and professional literature enhanced credibility. Trustworthiness was ensured through audit trails, reflexive memos, and thick contextual description.

Findings

1. Governance Structures: Present but Uneven

Most NDTMFIs maintain boards and audit committees. However, effectiveness varies, particularly between domestic institutions and subsidiaries where head-office directives override local boards.

2. Internal Audit: Recognized but Constrained

Participants universally acknowledged internal audit as central to transparency and accountability. Yet effectiveness is limited by:

- Management override
- Inadequate staffing and skills
- Narrow compliance-focused scope
- Weak follow-up mechanisms

3. Independence as the Critical Enabler

Audit independence emerged as foundational. Direct reporting to audit committees and protected budgets were seen as essential reforms.

4. Regulatory Compliance: Necessary but Costly

Compliance with Tier 4 requirements enhanced consumer protection and legitimacy but imposes disproportionate burdens on smaller institutions.

5. Digitization and Risk Resilience

Digital credit processes, strengthened credit reference bureau integration, and crisis frameworks were widely recommended to enhance control evidence and operational resilience.

6. Gender and Representation Gaps

Women remain under-represented in oversight roles, signaling broader governance diversity challenges.

Conclusion

Internal audit is widely perceived as the most practical lever for strengthening governance within Uganda's regulated NDTMFIs. However, its transformative potential remains constrained by independence deficits, limited resourcing, uneven board capability, and regulatory ambiguity.

Formal structures alone are insufficient. Governance must transition from symbolic compliance to functional accountability. By institutionalizing audit independence, upgrading audit operating models, and aligning regulatory mandates proportionate to institutional capacity, NDTMFIs can enhance resilience, transparency, and sustainability.

Recommendations

1. Mandate functional reporting of internal audit to independent audit committees.
2. Protect internal audit budgets and ensure adequate staffing.
3. Promote co-/outsourcing models to strengthen technical quality where capacity is limited.
4. Standardize board effectiveness tools and mandatory training.
5. Clarify Tier 4 regulatory mandates proportionate to institutional scale.
6. Digitize credit lifecycle processes to strengthen control evidence.
7. Encourage funding diversification to reduce capital vulnerability.

Implications to the Accountancy Profession

- Elevates internal audit from compliance function to strategic governance driver.
- Reinforces independence as non-negotiable in regulated institutions.
- Demonstrates how theory-informed qualitative research can shape policy reform.
- Highlights the profession's role in safeguarding inclusive finance ecosystems.

- Encourages professional bodies to strengthen training in microfinance governance.

Tips on Further Related Research

- Comparative studies across East African Tier 4 regulatory regimes.
- Quantitative analysis linking audit independence to portfolio-at-risk outcomes.
- Longitudinal studies on the post-restructuring impact of regulatory centralization.
- Gender diversity and governance effectiveness in microfinance boards.
- Digital transformation and internal control maturity in inclusive-finance institutions.

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Research Paper 4:

OPERATIONALISING SUSTAINABILITY AND ESG REPORTING: OPPORTUNITIES AND CHALLENGES IN THE UGANDAN CONTEXT

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Abstract

Sustainability and Environmental, Social, and Governance (ESG) reporting has emerged as a transformative paradigm redefining the scope and relevance of the accountancy profession. In Uganda, the integration of sustainability disclosure standards—particularly following the 2024 adoption of IFRS Sustainability Disclosure Standards—marks a watershed moment in corporate reporting reform. This paper examines the operationalisation of sustainability and ESG reporting within Uganda’s evolving regulatory and institutional ecosystem. It analyses opportunities arising from policy alignment, institutional readiness, global market integration, and competitive differentiation, while critically interrogating challenges related to regulatory gaps, data complexity, cultural resistance, capacity deficits, and limited mandatory enforcement. Drawing from policy documents, professional reports, and empirical insights from prior studies, the paper proposes actionable recommendations for regulators, professional bodies, and corporate entities. It concludes that while Uganda demonstrates strong institutional commitment—led by the Institute of Certified Public Accountants of Uganda—effective operationalisation requires a hybrid “carrot-and-stick” approach combining regulatory reform, professional skilling, data governance strengthening, and stakeholder sensitisation.

Keywords: Sustainability Reporting, ESG and Corporate Governance.

Background of the Study

Globally, sustainability reporting has shifted corporate accountability beyond profit maximisation toward holistic value creation, integrating financial and non-financial performance dimensions (Eccles & Klimenko, 2019; KPMG, 2022). Sustainability reporting provides stakeholders with information on how organisations balance economic, social, and environmental objectives, enhancing transparency and long-term value creation (de Villiers, Hsiao, & Maroun, 2017). ESG reporting further emphasises structured and measurable disclosures across environmental stewardship, social responsibility, and governance integrity (Gillan, Koch, & Starks, 2021).

The emergence of global standards such as the International Sustainability Standards Board IFRS Sustainability Disclosure Standards (IFRS S1 and S2), the Corporate Sustainability Reporting Directive (CSRD), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) has institutionalised sustainability reporting within global financial architecture (IFRS Foundation, 2023; European Commission, 2022; GRI, 2023). These frameworks embed sustainability risks and opportunities within corporate governance, strategy, and risk management systems.

In Uganda, a significant milestone was reached in 2019 with the formation of the Uganda Integrated Reporting Committee under the stewardship of the Institute of Certified Public Accountants of Uganda. In 2024, ICPAU formally announced Uganda's adoption of the IFRS Sustainability Disclosure Standards, signalling alignment with global best practice and strengthening the role of professional accountants in sustainability governance (ICPAU, 2024).

Uganda's sustainability context is shaped by high vulnerability to climate risks—particularly droughts affecting the agricultural sector, which contributes approximately 25% of GDP and sustains over 70% of livelihoods (World Bank, 2023). Policy frameworks such as the National Climate Change Act (2021) and Uganda's Nationally Determined Contributions (NDCs) reinforce ESG-related objectives by integrating climate resilience, environmental stewardship, and inclusive growth into national planning (Government of Uganda, 2021; UNFCCC, 2022). Consequently, the accountancy profession in Uganda is transitioning from traditional financial stewardship toward integrated sustainability governance.

Research Problem

Despite strong institutional momentum, the operationalisation of sustainability and ESG reporting in Uganda remains uneven. Key challenges include the absence of mandatory enforcement mechanisms under the Companies Act (2012); limited sector-specific ESG reporting frameworks (outside the banking sector); capacity gaps in preparing integrated and sustainability reports; and cultural resistance to enhanced corporate disclosure (World Bank, 2023; KPMG, 2022).

Although sustainability reporting is increasingly recognised as strategically important, many firms in emerging markets continue to treat ESG disclosures as voluntary or reputational rather than mandatory and risk-based (Gillan et al., 2021; Eccles & Klimenko, 2019). This raises concerns regarding the depth, comparability, and reliability of sustainability disclosures within Uganda's corporate sector.

Main Objective

To assess opportunities and challenges in operationalising sustainability and ESG reporting in Uganda.

Specific Objective

To explore opportunities and challenges in operationalising sustainability and ESG reporting in Uganda.

Rationale

While global scholarship extensively addresses ESG integration in developed economies, limited contextualised research exists on how developing countries operationalise IFRS Sustainability Disclosure Standards within emerging markets (de Villiers et al., 2017; Gillan et al., 2021). Specific gaps include: Limited Uganda-focused analysis linking national policy frameworks to practical corporate implementation; insufficient professional discourse positioning ESG as a core competency within the accountancy profession; and lack of structured, context-sensitive recommendations tailored to Uganda's institutional and regulatory realities.

This study therefore contributes locally grounded evidence to inform policymakers, regulators, and professional accountants navigating the transition toward sustainability-based financial governance.

Methods

This paper adopts a qualitative policy-review design.

Data sources included:

- Government policy frameworks (NDP III, National Climate Change Act 2021)
- Professional publications from ICPAU
- Industry reports including KPMG (2025) Uganda Corporate ESG Outlook
- Academic literature including Bananuka et al. (2019)
- Regional ESG summit reports

The approach synthesised regulatory developments, institutional frameworks, empirical findings, and sector reports to derive thematic opportunities and challenges.

Findings

1. Institutional Readiness and Regulatory Alignment

Uganda demonstrates proactive institutional alignment with global sustainability standards. ICPAU's leadership through the Uganda Integrated Reporting Committee has fostered awareness and roadmap validation workshops (ICPAU, 2025).

2. Policy and Legal Opportunities

Uganda's Constitution (Article 17(j)), National Environment Act (2019), National Climate Change Act (2021), and National Climate Finance Strategy create enabling conditions for ESG integration.

International trade mechanisms such as the EU Taxonomy, EU Deforestation Regulation, AfCFTA sustainability requirements, and the Carbon Border Adjustment Mechanism (CBAM) create compliance-driven export opportunities.

Companies adopting ESG reporting gain: improved access to capital, competitive differentiation, alignment with global supply chains and enhanced stakeholder trust

3. ESG as Competitive Differentiator

KPMG (2025) findings indicate that 91% of companies plan pre-emptive ESG compliance, and 80% view ESG as a value-creation tool rather than mere compliance.

Double materiality is increasingly recognised, though implementation remains limited.

4. Data and Capacity Challenges

Key operational constraints include: ESG data sourced from multiple fragmented systems (88%), lack of expertise in integrated reporting preparation, limited regulatory guidance on disclosure metrics, absence of mandatory integrated reporting requirements, cultural reluctance toward transparency and small capital markets limiting disclosure pressure.

These factors create an implementation gap between policy intent and operational reality.

Conclusion

Uganda has made commendable progress in embedding sustainability and ESG reporting within its corporate reporting ecosystem. Institutional leadership by ICPAU and alignment with IFRS Sustainability Standards mark a progressive shift.

However, operationalisation remains constrained by regulatory gaps, inconsistent enforcement, technical capacity limitations, cultural resistance to disclosure, and fragmented data governance systems.

A hybrid regulatory approach—combining incentives (market access, capital mobilisation) and enforcement (legal reform, listing requirements)—is necessary to transition ESG reporting from voluntary compliance to institutionalised professional practice.

Recommendations

1. **Legal Reform:** Amend the Companies Act 2012 to mandate sustainability and ESG reporting.
2. **Regulatory Harmonisation:** Strengthen coordination between ICPAU, CMA, USE, Bank of Uganda, and environmental authorities.
3. **Professional Capacity Building:** Expand CPD programs on ESG assurance, carbon accounting, and integrated reporting.
4. **Data Infrastructure Investment:** Develop national ESG data systems in collaboration with UBOS and environmental authorities.
5. **USE Listing Requirements:** Revise listing rules to require integrated and sustainability reports.
6. **Sector-Specific Frameworks:** Develop tailored ESG guidelines for agriculture, extractives, manufacturing, and SMEs.
7. **Awareness Campaigns:** Promote ESG as a business opportunity rather than regulatory burden.

Implications to the Accountancy Profession

- Expands accountants' roles into climate risk analysis and non-financial assurance.
- Requires interdisciplinary ESG competencies.
- Positions ICPAU as a regional ESG leader.
- Encourages assurance services for sustainability disclosures.
- Enhances professional relevance in globalised capital markets.

Sustainability reporting is no longer peripheral; it is central to the profession's future legitimacy and competitiveness.

Tips on Further Related Research

- Empirical study on ESG disclosure levels among USE-listed firms.
- Quantitative assessment of ESG adoption and financial performance correlation.

- Comparative analysis of ESG implementation across East African Community states.
- Assessment of readiness of SMEs for IFRS Sustainability Standards adoption.
- Examination of ESG assurance market development in Uganda.

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