INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

FREQUENTLY ASKED QUESTIONS (FAQs) ON COVID-19 RESPONSE AND RECOVERY

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, 2013 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

To be a world class professional accountancy institute

Mission

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

Core Values

- Professional excellence
- Accountability
- Integrity
- Innovation

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1.0 INTRODUCTION

While the Coronavirus outbreak presents an alarming global health crisis, there is a consensus that the health crisis also presents an economic one [1]. Businesses all over the world are faced with operational or financial challenges due to this outbreak. Businesses are also concerned with the impact that events may have on the relationship with their customers. Customer loyalty and trust are at test. Whereas disruptions have been more pronounced in industries such as tourism, hospitality, transportation (largely aviation) and retail among others; the accounting profession can not be left out. Accountants are faced with a multitude of challenges ranging from how to stay in touch with their clientele, keeping their staff to managing and applying the technical standards required of them when dealing with their clientele. The concerns below are some of the common issues that accountants have grappled with during this Covid 19 era, sorted by nature for easy referencing. We encourage readers who may wish to get additional information guidance on matters of the accountancy profession to raise their concern through standards@icpau.co.ug.

2.0 FINANCIAL ACCOUNTING AND REPORTING

2.1 What accounting standards are applicable when recognising the impact of COVID-19 in the preparation of financial statements?

IAS 1 Presentation of Financial Statements Paragraph 16 provides that an entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. The implication of this is that even with COVID-19, entities will be required to prepare their financial statements following all applicable IFRSs. The International Accounting Standards Board (IASB) has not issued any specific IFRS for COVID-19, however, minor amendments have been made to a few existing standards for example IFRS 16 Leases and IFRS 9 Financial Instruments to allow for more faithful presentation of financial information by providing sufficient disclosures in the notes to the financial statements with information about the entity that is useful to existing and potential investors, lenders, and other stakeholders. Entities will thus need to take note of the financial reporting matters that have been impacted by COVID-19 including but not limited to; going concern and liquidity, Impairment assessment, lease contract modifications, fair value measurement, revenue recognition, among others.

[1] Nyokerwa, E (2020) 'Coronavirus is an economic crisis', The New Vision Newspaper, Kampala, 19 March, p.20

2.2 In relation to IFRS 9, what is the likely impact of the COVID-19 on an entity's financial assets?

IFRS 9 *Financial Instruments* requires entities to classify a financial asset as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both; the entity's business model for managing the financial assets; and the contractual cash flow characteristics of the financial asset. Entities then apply the 3-Stage Impairment Approach to financial assets that are measured at amortised cost based on the significant increase or decrease in credit risk of the financial asset.

It is evident that with COVID-19, there is increased credit risk faced by lenders related to exposures to borrowers especially in highly affected sectors. A number of assumptions and linkages underlying the way the Expected Credit Loss (ECL) model have been implemented may no longer hold in the current environment of COVID-19. Provisions need to be estimated based on the ECL for the entire remaining life of a *financial instrument*, such as loans to borrowers whose credit risk has increased significantly since origination. Therefore entities, should not continue to apply their existing ECL methodology mechanically. In its publication on application of IFRS 9 Financial Instruments in light of the Coronavirus uncertainty [2], the IASB requires companies to incorporate reasonable and supportable information about past events, current conditions and the forecast of future economic conditions into the assessment of ECLs for financial assets not measured at fair value through profit or loss. Such an assessment should be based on information at the reporting date.

2.3 How should financial institutions treat interest forfeited due to COVID-19 related moratorium?

The forfeiture of interest due to COVID-19 would imply a modification of the terms of financial instruments. IFRS 9 requires that if the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognised, that financial asset is not automatically considered to have lower credit risk. Remember, even when a borrower is expected to repay all amounts owed but later than contractually required, there would be a credit loss if the lender is not compensated for the lost time value of money. Therefore an entity shall assess whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification.

[2] https://www.ifrs.org/news-and-events/2020/03/application-of-ifrs-9-in-the-light-of-the-coronavirus-uncertainty/

IFRS 9 Para 5.4.3 provides that in case of a renegotiation or modification that does not result in derecognition of a financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss while Paragraph 5.4.4 is to the effect that an entity would reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

2.4 Is there need for companies with financial assets and liabilities to review their IFRS 9 model in order to consider the effects of COVID-19?

Yes! A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment of COVID-19. Therefore entities, should not continue to apply their existing ECL methodology mechanically but rather include some revised assumptions that incorporate the effects of COVID-19.

2.5 How should companies assess COVID-19 events after the reporting period?

IAS 10 Events after the Reporting Period defines events after the reporting period as those events that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These are divided into adjusting (those that provide evidence of conditions that existed at the end of the reporting period) and non-adjusting events (those that are indicative of conditions that arose after the end of the reporting period).

IAS 10 requires an entity to adjust the amounts recognised in the financial statements to reflect adjusting events but disclosures are required only for material non-adjusting events.

On 11 March 2020 the World Health Organization (WHO) declared COVID-19 as a pandemic.

On 18 March 2020, public gatherings including places of worship and weddings were suspended in Uganda for 32 days with immediate effect and these containment measures have been extended and varied since then. The country required travellers arriving in the country to undergo a 14-day mandatory quarantine. Therefore, COVID-19 first gave rise to economic consequences in Uganda on 18 March 2020 although it was already considered a health crisis before that date.

Judgment is required in determining whether events that took place after the end of the reporting period are adjusting or non-adjusting events. This will be highly dependent on the reporting date and the specific facts and circumstances of each entity's operations and value chain. Management may need to continually review and update the assessments up to the date the financial statements are issued given the fluid nature of the crisis and the uncertainties involved.

The general consensus however, is that for periods ending on or before 31 December 2019, the effects of the COVID-19 outbreak are the result of events that arose after the reporting date and hence are a non-adjusting event. But for later reporting periods (say March 2020) the impact is most likely to be a current-period event which will require ongoing evaluation to determine the extent to which the impact should be recognized in the reporting period.

2.6 How should companies assess going concern in light of the COVID-19 crisis?

Assessment of an entity's ability to continue as a going concern is particularly relevant in light of the COVID-19 crisis. IAS 1 Presentation of Financial Statements requires management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern. This assessment needs to be performed up to the date on which the financial statements are authorised for issue. Any events after the reporting date that indicate that an entity is no longer a going concern are always adjusting events and accounted for under IAS 10. Management should disclose all events that may cast significant doubt on an entity's ability to continue as a going concern.

The financial statements of an entity shall be prepared on an alternative basis when the entity is no longer a going concern and this fact shall be disclosed together with the basis on which the financial statements were prepared and the reason why the entity is not regarded as a going concern.

2.7 How should an entity account for COVID-19 related rent concessions?

The IASB issued an amendment to IFRS 16 to guide lessees on how to account for Covid-19 related rent concessions. The changes:

- Provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification.
- Require lessees that apply the exemption to account for Covid-19 related rent concessions as if they were not lease modifications and to disclose the fact if the exemption is applied.
- Require lessees to apply the exemption retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors but they should not restate prior period figures.

The amendment is effective for annual periods beginning on or after 1 June 2020, though lessees can apply the amendment immediately in any financial statements (interim or annual) not yet authorized for issue.

2.8 How should an entity account for donations made to the National COVID-19 taskforce?

The Conceptual Framework defines expenses as decrease in assets, or increase in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims. Applying this definition, a donation made by an entity to the National COVID-19 taskforce qualifies to be classified as expense of that entity. Expenses are the elements of financial statements that relate to an entity's financial performance and should therefore be debited to the entity's Statement of Financial Performance to determine Net Profit.

2.9 How should an entity apply the 5- step revenue recognition process in IFRS 15 during the COVID-19 crisis?

IFRS 15 provides a five step process for revenue recognition. The steps include:

- Identifying the contract(s) with a customer;
- Identifying the performance obligations in the contract;
- Determining the transaction price;
- Allocate the transaction price to each performance obligation; and
- Recognising revenue when a performance obligation is satisfied.

Revenue recognition is likely to be impacted by a customer's inability to make payments due to the disruption caused by COVID-19. IFRS 15 requires that in identifying the contract with a customer, in order to be able to recognise revenue, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Probability of collectability will depend on customer's ability and intention to pay that amount. In light of COVID-19, this ability has been greatly affected for many, if not all, customers due to deterioration of their financial position. If an entity cannot conclude that collection is probable at inception of an arrangement, revenue should not be recognised until collectability becomes probable. Reassessment of collectability should be continuous especially when there is significant change in the circumstances and facts surrounding the last assessment.

Additionally, COVID-19 has caused disruptions that have greatly impacted ability to meet performance obligations by either party to a contract. Performance obligations are defined in IFRS 15 as promises in a contract to transfer to a customer goods or services that are distinct. The transaction price is recognised as revenue when, or as, the related performance obligation is satisfied. Due care needs to be taken to ensure that revenue is only recognised to the extent that the corresponding obligation has been satisfied. The lockdown effects of COVID-19 may delay greatly the recognition of revenue by most entities.

2.10 What should we consider while making accounting estimates, key judgments and assumptions during this financial year?

During these COVID-19 times, a number of entities are likely to face difficulties in making key judgments and assumptions for the preparation of their financial statements. Entities should consider all available information and ensure all applicable disclosure requirements, including those in IAS 1, are met. Information about how management arrived at key judgements and estimates and why those assumptions and methods were used is vital during this period of uncertainty as it will provide insight to users in understanding management's rationale when preparing the financial statements.

IAS 1 requires entities to disclose judgements made in the process of applying their accounting policies that have the most significant effect on the amounts recognised in the financial statements. It also requires disclosure of information about the assumptions the entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Entities need to carefully consider these and other IFRS disclosures to achieve faithful and transparent presentation of financial information to help users of financial statements understand the judgements made by management about the future of the entity in light of COVID-19.

2.11 Comment about the measurement of inventory in IAS 2 (Cost vs Net Realisable Value) in light of COVID-19.

Inventories are measured at the lower of cost and net realisable value (see Paragraph 9 of IAS 2 Inventories). COVID-19 has caused idleness in business. As a consequence, a number of entities have found themselves with damaged or obsolete inventories. COVID-19 has caused selling prices of some inventories to decline and increased the costs of selling. Generally, the value of inventories has been impaired. In such a case, entities should not carry inventories in excess of amounts expected to be realised from their sale or use. Paragraph 29 of IAS 2 provides details on how to write down inventories to net realisable value.

Each reporting period, net realisable value needs to be re-assessed. If the entity determines that the circumstances that previously caused the impairment no longer exist or have changed, the amount of the write-down is reversed to reflect new conditions. This essentially means that if an entity is certain that the adverse economic conditions that COVID-19 brought about are no more, then inventories need to be written back to recoverable amount. In addition to other disclosure requirements, Paragraph 98 of IAS 1 requires entities to separately disclose write downs of inventories to net realisable value as well as reversals of such write-downs.

2.12 How will COVID-19 affect accounting for provisions?

IAS 37 Provisions, Contingent Liabilities and Contingent assets defines a provision as a liability of uncertain timing or amount. The Standard further defines a liability as a present obligation (either legal or constructive) arising from past event that is expected to be settled by an outflow of economic benefits from an entity. As long as there is a past event causing a present obligation on an entity, that entity should recognise a provision provided all three of the criteria below are met:

- There is a present obligation as a result of a past event;
- The outflow of economic benefits to satisfy the obligation is probable (i.e. more than 50% probable)
- The amount of economic benefits required to satisfy the obligation can be reliably estimated.

The uncertainties of COVID-19 may cause an entity to be unsure whether to recognise a provision in a particular situation or not. In such circumstances, just ask yourself a simple question: Can the obligation be avoided by some future actions? Would the occurrence of COVID-19 extinguish an entity's legal/constructive obligation arising from a past event? Would COVID-19 cause the outflow of economic benefits to satisfy the obligation to be less than probable (i.e. less than 50% probable)? Would COVID-19 affect the reliability of estimates of the amount of economic benefits required to satisfy the obligation?

The answers to these questions may or may not validate the recognition criteria of a provision. We have already talked about what an entity should do in case all three criteria are met. However, if just one of them is not met, then the entity should either: disclose a contingent liability or do nothing if the outflow of economic benefits is remote.

It is probably also going to be difficult to measure provisions following COVID-19. IAS 37 provides that the amount of the provision should be measured at the best estimate of the expenditures required to satisfy the obligation at the end of the reporting period. The most problematic bit here is making estimates using information significant judgements. The assumptions that entities considered before COVID-19 may no longer hold. Entities should therefore incorporate new information in making their estimates to ensure that financial statements are faithfully presented.

3.0 TAXATION

3.1 Are donations to the COVID-19 Fund exempted in the filing of tax returns?

In deriving chargeable income, a company is granted the applicable deductions specified in the Income Tax Act Cap 340 (ITA). Donations are tax deductible to the extent allowable by law. According to the ITA, a taxpayer is allowed to claim a tax deduction for charitable donations as long as the donation is made to a tax-exempt organization (See sec 2(bb) (i) (A) or (B)). The maximum amount allowed as tax deductible is 5% of the taxpayer's chargeable income for the year calculated before taking into account the donation. See Sec 34 ITA. Accordingly, companies can contribute to a charitable organization that is set up for a social cause such as the fight against COVID-19.

Tax law and jurisprudence provide a strict interpretation of an exempt organization, which is that:

(i) It is:
   - a) An amateur sporting association; or
   - b) A religious, charitable or educational institution of a public character; or
   - c) A trade union, employees' association, an association of employers registered under any law of Uganda or an association established for the purpose of promoting farming, mining, tourism, manufacturing, or commerce and industry in Uganda; or
   - d) A body established by law for the purpose of regulating the conduct of professionals; and

(ii) It has been issued with a <u>written ruling by the Commissioner currently in force</u> stating that it is an exempt organization; and

(iii) None of the income or assets of which confers, or may confer, a private benefit on any person.

Realising the above debacle, on 4 June 2020, the Minister of Finance, Planning and Economic Development came up with an Income Tax (Amendment) (No. 2) Bill, 2020 with a commencement date of 1 July 2020 seeking to allow deduction for a gift made to the Government during a year of income for purposes of facilitating the Government in the prevention, treatment and containment of the Covid-19 pandemic. We have prepared our responses to the same (click here) and an article analysing the proposed bill (See more).

3.2 At my work place, all contracts were temporarily terminated but the directors decided to give staff a small subsistence contribution towards meals and some other basics. Is such a payment exempt from PAYE and NSSF deductions given it is not salary. Also how should the employer treat it in the books of accounts?

Sec.19 (1) of the Income Tax Act provides guidance on what constitutes employment income. Sec. 19 (1) (d) includes in employment income any amount derived as compensation for the termination of any contract of employment, whether or not provision is made in the contract for the payment of such compensation... The employer would thus be required to make the necessary deductions and remit the same to the respective authorities. In respect to NSSF, if the small subsistence contributions were made in cash, then they would be subjected to NSSF deduction.

Judicial jurisprudence has guided that matters of taxation of employment income are sometimes to be answered in light of facts of each case. It has further been shown that for a payment to be or not to be regarded as income arising from employment, one needs to consider whether the payment was or was not made in reference to the services the employee renders by virtue of their office, and it must be something in the nature of a reward for services past, present or future. In other words, were the 'small subsistence contributions' paid because of the nature of services that the staff had offered in the past, or were offering in the present or planned to offer in the future to the organization? This principle highlights the importance of consideration in matters of employee – employer relationship as one party offers a service and in return the other offers a payment in money terms, money's worth or even a gift.

Therefore based on the aforementioned, we advise that you critically analyse the facts of your scenario with reference to section 19 which seems to guide (under subsection 6) that for any amount or benefit to be deemed to have been derived from employment;

a) It must have been provided by the employer…..;
b) It must have been provided to an employee…..; and
c) It must have been provided in respect to past, present or prospective employment.

If your response to the above is a YES for all, then the payment would be subject to tax and vice versa.

3.3 How can a CFO ensure accuracy in taxes filed especially VAT, WHT & Excise Duty given the fact that hard copies are not readily available?

Part XIV of the Tax Procedures Code Act (TCPA) enlists penal tax related to failing to maintain proper records and or failing to provide Information. Providing false or misleading statements is equally punishable.

Based on the above therefore, accuracy in tax matters is a fundamental aspect that guides dealings between a taxpayer and the tax authority. The TPCA defines 'record' to include any information or data stored on a mechanical or electronic data storage device. By implication a record for tax purposes should not necessarily be a hard copy. During this pandemic, a CFO may consider adopting measures that enable him/her to secure proof for any transaction that attract VAT, WHT or Excise duty.

Record keeping has been and remains paramount even during the COVID-19 era. The TPCA further guides under section 15(3) that the mode of record keeping should contain sufficient transaction information and, in the case of a record in electronic format should be capable of being retrieved and converted to a standard record format equivalent to that contained in an acceptable paper record.

3.4 Do companies have to make provisions for penalties associated with non-compliance with filing tax returns and other regulatory/ legal obligations they may accrue during the COVID-19 crisis?

Whereas provisioning calls for prudent financial planning and forecast, by setting aside some amount of money to address an unexpected liability occurrence resulting from a past event whose consequence will require remedy in the future by way of an outflow of finances from the entity, during the COVID-19 crisis Government together with URA came up with business continuity measures (BCMs) related to filling of tax returns.

The URA BCMs provided for tax filing date extensions to 31st May 2020 for taxpayers whose accounting date is in September and were unable to file corporation tax returns by 31st March 2020. In relation to Value Added Tax (VAT), Pay As You Earn (PAYE), Excise duty, Withholding tax and taxes under the Lotteries and Gaming Act, a taxpayer whose tax returns for March 2020 were due by the 15thApril 2020 but was unable to file the returns, the taxpayer was granted an extension to file the returns by 30thApril 2020.

In addition, taxpayers who had executed a Memorandum of Understanding (MoU) and had payments due in the months of March and April 2020, had the option to defer and reschedule these payments. The terms of the MoU would be accordingly restructured for the payments to resume in May 2020.

Meanwhile the Minister for Finance Planning and Economic Development, has proposed to defer payment of a taxpayer's liability which arose on or after 1st April, 2020 but before 30th June, 2020 to be paid by 30th September, 2020. Therefore with the above foregoing, before a taxpayer considers providing for penalties associated with non-compliance with filing of taxes, they will need to consider these filing extensions and other moratorium in order to remain compliant not forgetting the already available avenues relating to extension of time to furnish a Tax Return within the Tax Procedures Code Act.

3.5 If the employer provides extra payments, such as to cover extra expenses incurred working from home or in cases where transport is provided to take the employees to alternative places of work, could these be taxable as fringe benefits?

Sec 19 (2) of the Income Tax Act includes within one's employment income any amount of any travelling, entertainment, utilities, cost of living, housing, medical, or other allowance in the computation of employment income.

By principle, such amounts become taxable benefits unless under circumstances where the transport costs and other extra costs say on purchase of data are claimed as spent and hence qualify to be reimbursements or under circumstances where the expenses are met for the entire staff without any discrimination. Where they are reimbursements, they will not fall within the realm of taxable benefits.

The good news for the employers is that the Minister for Finance Planning and Economic Development through the Tax Procedures Code (Amendment) Bill, 2020, has proposed to defer payment of a taxpayer's liability which arose on or after 1st April, 2020 but before 30th June, 2020 to be paid by 30th September, 2020. So whereas employers may deduct the tax in relation to taxable benefits, they may utilize the cash flows till 30th September 2020 before actually remitting the same to the tax authority.

3.6 Will reduced turnover during this crisis cause businesses to cease requiring being registered for tax purposes?

Businesses usually attach value to registration for tax purposes. Other than income tax which is paid at 30% of any excesses of income after allowable deductions and presumptive tax whose amount of tax is dependent on the turnover, the nature and location of business, consideration of VAT registration is also important. Our response to the above will particularly relate to VAT.

For a business to register for VAT they need to satisfy the requirements under section 7 of the VAT Act. However, section 9 provides for cancellation of registration for a taxable person who, with respect to the most recent period of three calendar months, the value of his or her taxable supplies exclusive of tax does not exceed one-quarter of the annual registration threshold specified under Section 7(2) and if the value of his or her taxable supplies exclusive of tax for the previous twelve calendar months does not exceed seventy five per cent of the annual registration threshold.

Otherwise for a person who was permitted to be registered under section 7(4), may only apply for cancellation of registration after the expiration of two years from the date of registration.

3.7 What is the appropriate treatment for deferred tax assets during and after the COVID-19 crisis?

In the wake of the COVID-19 crisis, many companies face unprecedented challenges, which have adversely impacted their operations. Both the current challenges and government's measures have affected their projections of future taxable profits, which are used to assess the recoverability of deferred tax assets. A deferred tax asset is an asset on a company's balance sheet that may be used to reduce its taxable income.

It is therefore difficult to ascertain at this point whether taxable profits will be available to recover deferred tax assets. In the current circumstances, a company's projections of future taxable profits are likely to be affected by changes in production or sales capacity, tax policy changes in response to COVID-19, etc. Some of these changes may reduce future taxable profits, while others may potentially increase them. In addition, some of the changes e.g. government's measures in response to COVID-19 – may impact the timing of the reversal of temporary differences.

When preparing projections of future taxable profits for the purposes of the deferred tax asset recognition, a company needs to reflect on expectations at the reporting date and use assumptions that are consistent with those used for other recoverability assessments e.g. impairment of non-financial assets. If the recognition threshold is met, then the company recognizes a deferred tax asset and measures it using the tax rate expected to apply when the underlying asset is recovered based on rates that are enacted or substantively enacted at the reporting date. In the meantime, management should:

i. Monitor government actions and consider whether any income tax relief is available.
ii. Determine whether there is a substantively enacted change in the income tax law; if there is, then it may impact the recognition and measurement of deferred tax assets.
iii. Establish whether there is an intention to repatriate or distribute a subsidiary's profits, because this would trigger recognition of a deferred tax liability.
iv. Consider how the current economic conditions could affect the company's tax strategies and plans.

v. Consider whether there is any uncertainty about income tax treatments.
vi. Update projections for the reversal of taxable temporary differences and for other future taxable profits, ensuring that the assumptions are consistent with those used for other recoverability assessments.
vii. Provide clear and transparent disclosure about judgments and estimates made in recognizing and measuring deferred tax assets.

3.8 Is it prudent to apply for VAT cash refund in case my balance is above 5m? If yes, how long do you think URA will take to refund? Are there any new tax incentives from URA during the COVID-19 Era?

The Minister for Finance Planning and Economic Development committed to expedite payment of outstanding VAT refunds in the 2020/21 financial year by dedicating Ushs 120.53 Billion to be refunded.

Currently a cash refund is applied when the amount claimable is greater than Shs. 5 million or where the taxpayer deals in mostly zero rated supplies. It is therefore very sensible to apply for a cash refund, more so to help the business maintain reasonable cash flows to keep afloat.

Also, in a bid to fast track the refund application process and support the economy in recovery from the COVID-19 effects, URA put in place mechanisms to streamline the refund and offset process and make it faster. The administrative guidelines issued require taxpayers to submit full documentation at once within 2 days after submission of the claims and ensure that the claims are 100% legitimate, to allow for faster and easier processing of refunds.

3.9 What's the Tax implication of someone who is employed by an entity based in another country say Kenya, paid by the parent company in say the United States is now caught up in Uganda due to containment measures but continues to work remotely supporting the Kenyan Office?

Without taking any assumptions, the tax principles of Uganda are based on the residence status of person at any particular period in time. That is whether one is liable to payment of tax or not will depend on whether they are resident persons or not. Resident persons or individuals will be taxed on all their worldwide income as provided for under sec 17(2)(a) of the ITA while for non-resident individuals, tax liability will be computed based on only incomes that are derived or sourced within Uganda.

Section 79 of the ITA guides in determining whether a person's income is directly or by implication sourced from within Uganda. To respond to the above question, the individual's resident status is key in determining their tax implications.

4.0 AUDITING AND ASSURANCE

4.1 In the face of critical uncertainty facing a number of organisations, auditors are faced with the risk of audit failures regarding post balance sheet events occasioned by COVID-19. Is there a risk mitigation mechanism and perhaps a presentation and disclosure disclaimer which could be adopted by auditors as they issue audit opinions without necessarily modifying the opinion?

ISA 570 (Revised), Going Concern requires auditors to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. Since it is likely that the pandemic will result in events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditors face an increased need to perform additional or enhanced audit procedures to be able to conclude on the appropriateness of management's assessment with regard to going concern.

The auditor's opinion will depend on the audit evidence obtained, the basis of preparation adopted and the disclosures made by management in the financial statements. The auditor will need to assess;

- The appropriateness of the client's use of the going concern basis of accounting in the preparation of the financial statements. This will require the auditor to consider all available information up to the date of the auditor's report when concluding on the appropriateness of the client's going concern assessment.
- Whether any material uncertainty caused by the pandemic is adequately disclosed in the financial statements. A material uncertainty related to going concern exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary to meet reporting requirements.

Where the auditor has sufficient appropriate audit evidence that the financial statements have been appropriately prepared on a going concern basis, an unmodified opinion is expressed.

If the material uncertainty about the client's going concern status is identified and adequately disclosed in the financial statements, in the auditor's report, 'the conclusions relating to going concern' section should be replaced with a 'material uncertainty related to going concern' section. If the material uncertainties relating to going concern are not disclosed and management is unwilling to do so, then the auditor may need to consider issuing a modified auditor's report.

If the financial statements have been appropriately prepared on a going concern basis and a material uncertainty about going concern is identified but no appropriate disclosures are made, then a qualified or adverse opinion is expressed as appropriate in accordance with ISA 705 (Revised). The auditor will then have to state in the 'Basis for Qualified (Adverse) Opinion' section of the report that a material uncertainty exists that may cast a significant doubt on the entity's ability to continue as a going concern and that the matter is not appropriately disclosed in the entity's financial statements.

The risk mitigation mechanism for auditors during this period therefore lies in performing their duties with increased professionalism. While the impact of the COVID-19 pandemic may amplify events or conditions giving rise to modifications to the auditor's report or opinion, it does not in itself mean a modification is inevitable. This will depend on the facts and circumstances of each auditee. This is an area that requires auditors to exercise a high level of professional skepticism.

4.2 What should be the contingency plan for physical verification of assets and inventory during the COVID-19 crisis?

a) Physical verification of assets

Since physical verification of assets may not be possible during the COVID-19 crisis, auditors need to consider which assets are absolutely vital to test physically, and where evidence can be obtained through other means. Verification through other means will involve verification through records such as the schedule of fixed assets, ledger or register balances. New fixed assets or improvements in the existing ones may be verified with reference to supporting documents such as purchase orders, invoices and title deeds.

Self-constructed assets, improvements and capital work in progress may be verified with reference to the supporting documents such as contractors' bills, work order records and independent confirmation of the work performed.

b) Physical verification of inventory

ISA 501, Audit Evidence- Specific Considerations for Selected Items, notes that, if inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attending physical inventory counting, unless impracticable, and perform audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. The COVID-19 pandemic is an example of a circumstance which renders in- person attendance during physical inventory counting impracticable.

In case the client is able to perform the usual physical inventory counts, but the auditors are unable to attend due to travel restrictions, the auditors may take advantage of technologies including camera systems with live video feeds, to observe inventory counts. The auditors should be aware of the fact that procedures which can be performed virtually might be a bit more limited and may pose additional audit risks that will need to be addressed. When there are multiple inventory locations, auditors will need to address control of inventory counts to obtain evidence that inventory was not moved from one location to another during the inventory counts. If the audit risks cannot be reduced to an acceptable level, this will pose a scope limitation.

In case the auditor is still unable to attend inventory counts virtually or perform alternative procedures to obtain sufficient appropriate audit evidence that the counts were conducted properly (either unable to attend physical counts in person or remotely, or unable to test roll forward of inventory from the balance sheet date to inventory observation date), these issues are likely to present scope limitations that will impact the auditor's report. In cases where inventory balances are material but not pervasive, this will result in qualified audit opinions.

4.3 How can auditors obtain substantive and appropriate audit evidence when they are unable to interface with the client? Does this compromise audit quality?

During the COVID-19 crisis, all the ISAs are still applicable to obtain sufficient and appropriate audit evidence. In instances where the auditor is unable to perform specific audit procedures such as physical verification of assets or attendance of stock takes, then they should perform alternative procedures as laid out in the ISAs in order to obtain sufficient appropriate audit evidence. Audit quality should never be compromised!

4.4 What impact does the COVID-19 outbreak have on planning and performing an audit?

With the coronavirus pandemic, auditors most likely will need to reassess the nature and level of risks of material misstatement on their audit, as the information on which prior years' risk assessment was based may have changed or new circumstances previously not considered may have occurred. Auditors should evaluate any impact, revise their risk assessments and modify planned audit procedures accordingly in accordance with ISA 315 Identifying and Assessing the Risks of Material Misstatement.

One will need to assess whether
(a) There are any new risks that are likely to impact on the audit process
(b) The level of risk associated with certain account balances, classes of transactions or disclosures at the planning stage now need to be elevated, perhaps to the extent that they now become a significant risk? If so, what additional audit procedures may be required to address any elevated or new significant risks

(c) The client's internal control framework, has adequate risk assessment controls to monitor and address concerns arising from Covid 19 pandemic

(d) Any changes in the nature and level of risk require alternative responses to these risks (e.g. inability to attend client locations to perform tests of controls, the underlying basis or data used for certain analytical procedures is no longer appropriate, increased levels of risk requiring increased sample sizes when performing tests of details).

All in all, the COVID-19 pandemic introduces a couple of considerations that are likely to impact on planning and subsequent performance of an audit. Auditors will need to apply judgement in tackling the issue at hand.

4.5 Post- COVID-19 audit engagements look set to present great challenges for "Going Concern" considerations. How should auditors address this in future audits?

The COVID-19 pandemic has caused the financial position of many organisations to deteriorate. Since ISA 570 (Revised), Going Concern requires auditors to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude whether a material uncertainty exists about the entity's ability to continue as a going concern based on the audit evidence obtained, auditors will need to perform extensive audit procedures about events or conditions that may raise substantial doubt about their audit clients' ability to continue as a going concern. After determining whether there is substantial doubt, the auditors should consider management's plans to alleviate that doubt. Then, assess the impact on the auditor's report as follows:

- If management's plans alleviate substantial doubt, an unmodified opinion may be issued.
- If the going concern basis of accounting is appropriate but substantial doubt remains, an emphasis of matter paragraph is required.
- If the going concern basis of accounting is not appropriate, an adverse opinion should be issued.

Given the magnitude of the effects of the COVID-19 pandemic on businesses, auditors should view going concern as a heightened and/or significant risk area for all Post COVID-19 audits. Auditors will need to ensure that they obtain sufficient appropriate audit evidence when testing management assumptions and forecasts. They will need to remain professionally sceptical throughout the audit and consider the potential challenges that their clients are likely to face due to COVID-19.

4.6 What is the impact of an omission or inadequacy of disclosure or a misstatement in amount, arising from the impact of the COVID-19 outbreak on the auditor's report?

Misstatements include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

The auditor should consider a modification of the audit opinion in accordance with the ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report. ISA 705 under paragraphs 7(a) and 8 respectively requires that:

(a) The auditor expresses a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

(b) When the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements, the auditor shall express an adverse opinion.

4.7 What is the impact on the auditor's report pertaining to the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

Where the financial statements have been prepared using the going concern basis of accounting but due to the COVID-19 pandemic, there is a material uncertainty related to events or conditions that may cast significant doubt on the reporting entity's ability to continue as a going concern; the auditor may consider any of the two scenarios discussed below.

- According to ISA 705 (Revised) 'Going Concern' paragraph 22, where there is adequate disclosure about the material uncertainty in the financial statements, the auditor shall express an unmodified opinion and include a separate section under the heading "Material Uncertainty Related to Going Concern".
- While paragraph 23 is to the effect that where adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with the standard and the Basis for Qualified (Adverse) opinion section of the auditor's report, shall state that a material uncertainty exists that may cast doubt on the entity's ability to continue as a going concern.

4.8 **The government is calling upon banks to reschedule client loans during the COVID-19 crisis. Doesn't this interfere with the auditors' ability to appropriately determine the exact exposure to default risk?**

The responsibility for preparing and overseeing financial reporting is with management, with oversight from TCWG. They will have to exercise significant judgment in the current business environment with particular concern on providing a fair view and presentation of the performance and position of the entity, which is likely to require comprehensive disclosure of forward-looking information and cash flow impacts. IFRS 9 requires preparers to use reasonable and supportable forward-looking information, obtained without undue cost or effort in shaping their multiple economic scenarios. Since assessment of credit risk is an integral part of measuring expected credit losses under IFRS 9 Financial Instruments; qualitative and quantitative disclosures will be key in enabling users of financial statements to understand the effect of credit risk on the amount, timing, and uncertainty of the future cash flows. This includes the basis of inputs and use of assumptions and estimation techniques. Auditors are thus expected to perform extensive audit procedures about the required disclosures, relating to the nature and extent of risks from financial instruments and the measures put in place to manage those risks, to enable users to understand the overall impact of COVID-19 on an entity's position and performance.

4.9 **If an organization's financial year end is 31st December 2019 but the audited financial statements were not yet issued by the time the Coronavirus disease was declared a global pandemic, what would be the expected disclosure requirements within the auditor's report?**

For entities with reporting periods ending on or before 31 December 2019, the effects of the COVID-19 outbreak are non-adjusting events (those that are indicative of conditions that arose after the reporting period) since they are a result of events that arose after the reporting date. For material non adjusting events, management is required to disclose the nature of the event and an estimate of its financial effect. If the effect cannot be reliably quantitatively estimated, there still needs to be a qualitative disclosure, including a statement that it is not possible to estimate the effect. Management should also consider whether it is able to properly assess going concern, in the event that it cannot reliably quantify the effect of non-adjusting events. Examples of non-adjusting events that would generally be disclosed include going concern, breaches of loan covenants, management plans to discontinue an operation or implement a major restructuring, significant declines in the fair values of investments held and abnormally large changes in asset prices, after the reporting period.

4.10 If the organization's financial year end is June 2020, would the auditor's disclosure requirements differ. If so how?

For organisations whose financial year end is June 2020 or any period after 31 December 2019, the COVID-19 outbreak is a current period event (that is, adjusting event - those that provide evidence of conditions that existed at the end of the reporting period) that requires ongoing evaluation to determine the extent to which the developments should be recognised in the financial statements. Where the effects of the COVID-19 outbreak are adjusting effects, they should be reported about carefully and may require adjustments in the amounts recognised in the financial statements. This is a very sensitive area that requires significant judgment to be exercised.

4.11 When assessing impairment allowance on loans and advance for company whose year-end is December 2019, do we need to consider the impact of the COVID-19 crisis?

ISA 560 Subsequent events, requires auditors to perform procedures designed to obtain sufficient appropriate audit evidence that all events requiring adjustment of, or disclosure in, the financial statements, occurring between the date of the financial statements and the auditor's report, have been identified and appropriately reflected in the financial statements in accordance with the applicable financial reporting framework. In light of the COVID-19 pandemic, the auditor should perform thorough procedures to test management's adjustments or disclosures, including the timelines used to distinguish between adjusting and non-adjusting events. Audit of subsequent events requires exercise of professional skepticism.

Therefore, the effects of the COVID-19 outbreak should not be considered in impairment of any financial (say loans and advances) and non-financial assets when reporting on years ending on or before 31st December 2019. Consequently, forecasts, projections, and valuations for impairment calculations as at 31st December 2019 will need to be carefully reviewed to ensure that significant events related to the COVID-19 outbreak are not being incorporated in hindsight. The auditor should also consider if appropriate disclosures in the financial report have been identified and perform audit procedures on the appropriateness of these disclosures in accordance with ISA 560. Appropriate disclosures should reflect the nature of the events and estimates of their financial effects or a statement that a reasonable estimate of the effect cannot be made.

5.0 ADVISORY

5.1 What can Small and Medium Enterprises (SMEs) do to remain in business during this COVID-19 time?

For SMEs to remain afloat during and after COVID-19, they need to become versatile. This could be done by;

- Ensuring prudent financial management to ease the projected cash flow burden;
- embracing innovation and automation to support e-commerce and business continuity;
- Ensuring the safety and wellbeing of employees through facilitating remote working and flexi working schedules;
- Applying for available amnesties to protect liquidity; and
- Renegotiating contracts to relax existing contractual obligations.

SMEs equally need to abide by government guidelines and adhere to the directives as issued by the relevant authorities, to avoid unnecessary penalties and other punitive action that might put their businesses in further jeopardy. A detailed approach has been included in an article COVID-19: Business Resilience Tips for SMEs.

5.2 What is the financial implication of donations to government by SMEs?

The Private sector of a number of developing countries has joined hands with their respective Governments to at least mitigate the short-term impact of the Coronavirus Disease. However, although this may seem rather humanitarian and patriotic, some organisations may have contributed millions and millions before they could assess the longevity of their cash flows keeping in mind the fact that no one has accurately projected how long the pandemic will keep biting. Based on that therefore, organisations need to first evaluate their ability to meet recurring expenses, especially staff costs, at least for the foreseeable future before any explicit contributions are made to the fight against COVID-19. Maintaining staff pay has far-reaching effects to economic stability due to its related impact on effective and aggregate demand. Yes, COVID-19 has greatly affected economies however, donations should not put the life of your business in danger even if that would be in the pretext of saving another.

6.0 INTERNAL AUDIT AND RISK MANAGEMENT

6.1 Are audit plans approved before the COVID-19 crisis still relevant?

The Coronavirus (COVID-19) pandemic has changed the world and internal audit functions need to face that world differently. The internal audit plans that had been adopted by early 2020 when COVID-19 was declared a global pandemic have to be changed to adapt to frequently changing organisation and business risks. As COVID-19 has fundamentally changed the risk profiles of many organisations, there is a need for internal audit to ramp up to a "new normal" in which internal audit plans are recalibrated from a dramatically different risk perspective. The revised audit plans should have higher risk profiles on areas such as cybersecurity, employee health, third party relationships and remote working arrangements. In principle internal audit needs to demonstrate flexibility and agility in response to the dynamic risk environment caused by COVID-19. Some entities' internal audit functions have updated their audit plans, by discontinuing or reducing scope for some audit engagements earlier planned while adding new engagements due to COVID-19.

6.2 Which emerging high risks should internal auditors focus on to add value during this crisis?

Internal auditors should focus on the adoption of many of the practices that have been introduced during the crisis as the 'new normal.' It is possible that businesses may never return to the same business as usual they once knew- they will likely be more remote working, less travel, greater use of technology, increased digital operations as well as changes in regulatory approaches and people strategy. In times of crisis, certain risks become more prevalent and below is a non-exhaustive list of emerging risks for internal auditors to consider in the 'new normal';

i. *Business Continuity*

Internal audit considerations could include helping organisations understand possible points of failure (e.g. processes, employees and technologies), testing disaster recovery plans, challenging management's forecasts of business impact (e.g. going concern, goodwill and intangibles, expected credit losses), considering management's assessment, monitoring, and contingency plans of key outsource service providers.

i. *Cybersecurity*

Remote working due to the COVID19 pandemic heightens existing cyber risks and introduces new ones to a number of organisations. The key concern for internal auditors should be whether the internal control environment is sufficiently robust to protect the organisation during this time particularly from IT-related attacks like viruses and phishing of emails. Internal audit considerations could thus include remote access controls, third-party security plans, security of remote working assets, licenses and software to support remote working as well as insider threat risks caused by disgruntled or displaced employees and contractors.

ii. *Enterprise Risk Management*

There is a general consensus that COVID-19 has dramatically altered the risk landscape most organizations face, introducing a number of very fast-emerging issues. Impacts such as a rise in mandatory work from home, shift in customer behavior, zeal for cost optimization all have changed priority. Internal audit should consider whether organisations have on-going processes in place to continue to meet all responsibilities and the agility of their organisations' risk assessment processes in light of the COVID-19 crisis.

iii. *IT General Controls - User access controls*

Due to flexible working arrangements and individuals requiring greater access to systems to help cover for people who are off, user access controls may be compromised, and conflicts may arise. Internal audit considerations could include monitoring the controls in place for segregation of duties and maintenance of audit trails as well as detection of fraud risks and management overrides.

iv. *Finance*

Internal audit considerations could include understanding working capital requirements against scenario planning assumptions and assessing cash flow forecasts, availability and impact of fiscal support such as repayment of loans, challenging the completeness of management's accounting and reporting, particularly in the context of finalising year-end financial statements and quarterly reporting deadlines.

v. *Human capital*

Internal audit considerations could include the adequacy of plans put in place by organisations to maintain the health and well-being of their workforce, ensuring that any 'work arounds' used during the lockdown period are regularised and appropriately controlled, confirming the availability and appropriateness of use of social media during the crisis period, the impact of suspension of usual HR processes such as annual performance assessments.

vi. *Internal controls*

Internal audit should understand the changes, both temporary and permanent, being made to the organisation's internal control environment, with a special focus on management review controls, accounting judgment controls (bad debt provision, inventory provision, impairment of goodwill and intangible assets, fair value of financial and non- financial assets), transaction processing controls, cash payment controls, automated business controls, insider trading concerns, resilience and remote working as well as associate or joint venture accounting controls.

6.3 What is the involvement of the internal audit function in the emergency purchases due to COVID-19 which were not originally planned for in institutional budgets?

The COVID-19 crisis has caused severe disruption in the supply and distribution chain of goods and services needed by businesses. The crisis has affected many businesses that they cannot supply the required goods and services to their customers. Therefore the crisis can be said to have caused situations where there are limited suppliers to engage in competitive bidding or that the crisis itself has made competitive bidding impossible leading to an increase in direct purchases. Internal audit's role in such situations should be to ascertain that the emergency purchases met the following conditions:

- The purchases were to address current urgent needs that were not foreseeable before the crisis e.g. procurement of supplies such as gloves and sanitisers to enhance public health of the employees or procurement of supplies essential for a business' smooth running or to replace an urgently needed existing supply source that has ceased to deliver due to pandemic related disruption.
- To the extent possible, all existing market intelligence was used to inform decisions on emergency purchases. Existing procurement data on observed data on prices, suppliers, etc. could be useful to get an overall picture of market conditions before the pandemic, and negotiate prices and delivery terms during the crisis.
- National and international rules and guidelines on emergency COVID-19 related procurement are followed.

6.4 What are the organisation risks that can result from suspension and termination of employee contracts and how can organisations overcome this risk?

Risks associated with suspension and termination of employee contracts is limited to the extent that all compensation obligations due to the employee are covered. The specific provisions of the Employment Act 2006 relating to suspension and termination of employee contracts should be adhered to in order to minimise any risk exposure to legal suits. Organisations should ensure that employee contracts have a "Force Majeure" clause which refers to events beyond the reasonable control of a party and which makes performance of one's obligations under the agreement impossible under the circumstances. Employers should obtain legal guidance and professional advice about the legality of their actions.

6.5 In light of the COVID-19 crisis, how can the risk of fraud be minimised?

With COVID-19 disrupting business as usual, attempts at fraud are likely to be targeted at controls on existing processes which may not be functioning as designed due to remote working, employer distraction, and operational or workforce disruption. Remote working arrangements are weakening the oversight provided by the three lines of defence. Cyber risks are also heightened with IT changes being rapidly deployed and network access being requested from multiple locations. Opportunistic threats are increasing as criminal organisations seek to exploit the changing environment. Unprecedented times like this call for innovative solutions to identify and tackle the increase in fraud. To reduce exposure to fraud risk during these challenging times, organisations should:

- Update their existing fraud risks assessment to include detailed evaluation of new risks such as cybercrime, fraud and information theft due to the crisis.
- Consider the impact of reducing headcount and cost cutting measures. When businesses downsize, the remaining staff and management take on additional responsibility outside their scope and expertise as a result of work being realigned. This can result in weaknesses in the internal control structure such as lack of segregation of duties, staff getting overworked and under- resourced, increased pressure on governance structures and hence increase in fraud. Therefore organisations should consider whether all updated processes and procedures are understood, including revised roles and responsibilities.
- Consider risks attached to fast tracking new suppliers and other business partners. Existing suppliers and third parties who are fully vetted or screened may not be able to quickly deliver products or services due to COVID-19 related challenges. This may create a risk of engaging unsuitable third parties. To minimise risk of fraud, sufficient steps should be undertaken to independently verify new and existing suppliers and business partners.
- Review management's commitment to internal controls and report on any suspicions or allegations of fraud. Internal audit should ensure that they review and expand or redirect internal audit coverage, prioritise fraud risk in the internal audit plan, assess the adequacy of the control environment as well as the company's whistle- blowing procedures, increase data monitoring and analysis and conduct, where appropriate, surprise audits.

Having a robust risk management program, and a culture where the tone at the top promotes integrity and holds employees accountable, will go a long way in preventing fraud.

6.6 How can internal auditors be of utmost use during these unprecedented times without compromising their independence and objectivity?

With the COVID-19 crisis dominating every aspect of life, organisations are quickly adapting how they operate. It is not surprising that internal auditors are called upon for help. Internal auditors themselves will want to do their bit to assist the organisation in a more direct way in its hour of need. However this may create problems for the internal auditors in future as their objectivity and independence will be compromised since they participated in the execution of some tasks for which they may provide assurance in future. This means that if internal audit directly helps the first and second lines during the crisis, it should ensure that this activity does not influence any future engagements.

Internal Audit with specialist skills, can help:

- IT staff in dealing with unusually high requests for support, as staff normally based in the office try to work from home and in analysing incoming 'flagged' cyber- activity, as fraudsters love crises.
- First- line staff grappling with new payroll and other complexities if internal audit possess finance and accountancy skills.
- Develop updated underwriting models, and train staff in applying them, as the situation evolves especially where internal audit possess actuarial skills.

All in all, internal auditors with reasonably recent first-line experience can help the areas in which they are subject matter experts but as they do this, they need to be mindful of how the work they do alongside the first-line staff could give rise to future conflicts of interest. If this happens, awareness and full disclosure are the solutions. Sensible safeguards must be established when internal auditors take on additional roles and responsibilities outside of internal auditing and this should be undertaken with the full knowledge of the Audit Committee.

6.7 How can internal audit adopt agile ways of working and reporting to speed up the delivery of mission critical audits of emergency responses by the public sector?

Agile internal auditing can be achieved through changing the mindset of an internal audit function to focus on stakeholder needs, accelerate audit cycles, drive timely insights, reduce wasted effort and generate less documentation. Internal auditors should work to shift their mindset and processes by pursuing:

- Clearer outcomes. Rather than, for example, open-ended reviews or audits in search of findings, agile internal audit methods aim to confirm or disprove a hypothesis or support a point of view (mindset shift). That way, the audit or project targets an outcome, which guides the fieldwork and reporting (process shift).
- Increased engagement. While maintaining objectivity, internal auditors, in collaboration with stakeholders, should prioritise areas, issues and risks (mindset shift). This will help them identify needed resources and focus their work on factors that determine business performance and value (process shift).
- Improved documentation. Instead of feeling the need to explain every step

taken and justify it through exhaustive documentation (mindset shift), agile internal audit frameworks can deliver briefer, timely reports with fewer words and more visuals (process shift).

These strategies will align mindset and process towards the issues, challenges and risks that most affect the organisation's ability to implement strategy and achieve goals. At the same time, routine assurance activities will be conducted without unnecessary resources, effort or reports. The adoption of agile auditing should lead to enhanced internal audit planning, empowered internal audit teams, accelerated delivery cycles and valuable insights on trends, risks, challenges and opportunities that can most impact the organisation and drive insights.

6.8 How is COVID-19 likely to impact the internal audit function?

The COVID-19 crisis that the world is facing currently is a problem that has disrupted society as we know leading to changes in how businesses are run. In order to adopt to the new situation, the internal audit function needs to reassess its priorities as newly emerged immediate threats are taken into account. Internal audit is likely to shift to a more consultative approach, participating in crisis meetings, advising on changes and workarounds in business operations as well as business continuity plans. The COVID-19 crisis has created a need for the internal audit function to increase its capacity to address emerging risks due to remote working such as IT security risks, cybersecurity and phishing. There also need for internal auditors to undertake more assurance in areas such as business resilience, cash flow and liquidity management and business continuity management.

Audit plans should acknowledge limitations and restrictions faced by their entities due to the COVID-19 crisis. The scope of the planned audits should be reconsidered in order to make sure that the audits are still relevant and essential for the business. The impact of the COVID-19 crisis on business processes must be taken into account when determining the scope of the engagement. Changes to audit planning may be required to adapt to the reprioritisations or delays that occur within businesses, due to key auditees not being available and/or project deadlines being postponed. When reprioritising and updating the audit plans, internal audit functions also need to reassess their resources, knowledge and capabilities.

The way of conducting audits has also changed dramatically, mainly due to remote working. Therefore internal auditors need to not only secure tools and technology to perform the audit work remotely but to also be sufficiently technology- savvy to perform the audits remotely. Furthermore, the COVID-19 crisis has emphasised the need for internal audit functions to have sufficient knowledgeable auditors available to assess increased IT security, business resilience and/or cash flow and liquidity management risks.

Communication is essential during the reporting phase of the internal audit. Audit teams must be clear and consistent in their communication. However, the protocols need to be revisited with regard to the frequency and the way in which the audit team reports to the auditee as sufficient interaction is essential. Focus should be on key risks rather than overloading a distressed business with lower risk findings. Additionally, the audit team should acknowledge that management potentially has limited capacity to remediate these issues on short notice. Due to the effects of the COVID-19 crisis on business operations, most attention is being devoted to crisis management. As a consequence, auditees may struggle to implement the recommendations of the audit findings in time.

6.9 How should internal auditors address situations where management performs emergency procurements from suppliers who are not prequalified during this era COVID-19?

Internal auditors should ensure that, in addition to the usual controls regarding procurements, the following conditions are met:

- The prequalified suppliers were constrained by the COVID-19 crisis and such could not fulfil their obligations and yet the suppliers who could provide the supplies during the crisis were not prequalified.
- The procurements were to address current urgent unforeseeable needs that are related to or arose as a result of the pandemic disruptions.

6.10 What is the difference between real time assurance and pre audit?

Real time assurance can best be described as continuous assurance of the reliability of information provided by the auditors. Real time assurance is agile and forward looking assurance that is provided through data analytics, allowing for quick and responsive changes to audit plans and scoping in audit engagements, and enhancing the depth and breadth of fieldwork without expending extra time and effort.

Pre- audits on the other hand, are reviews of invoices, contracts, purchase orders, and other requests for funds to substantiate a transaction or a series of transactions before they are executed and recorded. Pre-audits are widely used to ensure that transactions are accurate in all respects, deficiencies are identified and rectified even before cash ever leaves a company's account.

6.11 Bank of Uganda issued directives to commercial banks to reschedule credit facilities. How can internal auditors ensure that credit risk involved is managed?

For commercial banks, managing the effects of the crisis on credit risk and capital levels should be a top priority. To achieve this, internal auditors should ensure that:

- An analysis is performed of credit portfolios, identifying the sectors and companies most likely to have viable and sustainable business. The accounting for impairments should comply with accounting standards or any changes in standards due to the crisis.

- The impact of the crisis on credit risk monitoring systems is assessed. Internal auditors should be involved in the adjustment of systems to deal with any effects of the crisis. Risk assessment of debtors and exposures of different industries.
- Management considers freezing of lending for particular categories of businesses, industries or geographical locations on the basis of severity of COVID-19 effects on such businesses. On the other hand, consideration should also be made for businesses which can only resume operations with financial support and whether lending will stimulate the businesses and ensure that the loans are paid.

6.12 What are risks arising from remote working? How can internal auditors respond to those risks?

Remote working is likely to lead to new or elevated cybersecurity risks such as:

- Scam and phishing activities where attackers access confidential information
- Fraud especially as employees using unsecure personal devices to perform official duties. This risk is also likely to be increased by lack of oversight of teams during remote working which may increase risk of fraudulent activities.

Remote working, when not properly managed, is also likely to lead to lower productivity due to disengaged team members, lack of human interaction which impacts mental wellbeing and poor workspaces for remote working.

Internal auditors can respond to these risks through;

- *Remote worker readiness assessment*
  There should be a review of the organisational readiness for staff and other workers to continue operations from locations outside of office sites. Some of the considerations here should be clarity and consistency of technology protocols and communications to staff.
- *Access and communication readiness*
  Organisations should consider suitable capacity of remote technology, IT support and self-service arrangements, secure access via VPN, communications and capacity.
- *Incident monitoring and response*
  There should be a security monitoring system with capacity to perform appropriate investigations and actions as issues with the system are identified.

6.13 How can the internal audit function provide assurance while working remotely?

Remote auditing can be just as effective as more traditional face-to-face methods. For successful remote auditing, each audit team member will need all the necessary equipment, hardware, software and procedures to get the job done. It is also important for each auditor to find a designated space to work. Having guidance could also be handy for remote auditing. It is important for the team to have an audit manual and a remote work policy.

Communication skills are always ranked among the most important skills for auditors and working remotely really puts communication skills to the test. It is therefore important that all aspects of communication techniques, tools and delivery are in place to ensure communication with the team members and auditees. Remote auditing depends on the availability of technology to support live, interactive conversation/ interviews and being able to review documents and data.

6.14 What are the critical success factors and key performance indicators that stakeholders need to consider in order to achieve the strategic objectives of their organisations post COVID-19?

Organisational survival after the COID-19 crisis will depend on their responses to the crisis. Successful entities are likely to be those whose response strategies include the following measures:

- *Providing customers with safety measures that restore trust.*

  During and after the COVID-19 crisis, clients will be more vigilant about health which is likely to increase their demands on safety. Therefore any organisation that hopes to achieve its objectives post COVID-19 will have to invest a great deal of resources in this area.

- *A people-first mindset.*

  COVID-19 has shown that organisations' top priority should be the safety and well-being of the employees. Therefore, any future successful organisation will be one that acknowledges that employees work best when their welfare is considered and as such provides a safe workplace and provides support to employees whenever they need it. Issuance of preventive tools like masks, sanitisers as well as other protective gear should be necessities in future successful organisations.

- *Investment in IT and technology.*

  The COVID-19 crisis has demonstrated that successful organisations need to accelerate their digital transformation customer and employee needs. The IT infrastructure must be relevant, secure and able to meet emerging expectations of customers, employees and suppliers. Successful organisations after the crisis will be those that have invested in adequate digital channels to serve customers and suppliers as well as relevant technology to enable remote working for employees whenever need arises. Investment should also cover possible risks such cybersecurity risks as the organisations advance technologically.

- *Develop a robust communication strategy*

  Effective communication during and after a crisis is crucial to maintaining customer trust, restoring employee morale and confidence, and retaining market stability. To provide cohesive and timely enterprise messaging, companies must establish a robust communications strategy that clearly lays out process and protocols to engage with a wide set of stakeholders (like customers, suppliers, regulators, competitors, government, media) inclusive of any legal and jurisdictional considerations.

6.15 What audit issues may arise in circumstances where an organization's COVID-19 committee gets involved in emergency procurements?

As the COVID-19 pandemic continues to affect millions of people globally, an unprecedented global health crisis has been set in motion leaving many organisations scrambling to get life- saving health supplies. In situations where an organisation's COVD-19 committee gets involved in COVID-19 related emergency procurements such as needed medical supplies, the following are some of the audit issues that may arise:

- Direct bidding and non- competitive procurements which are likely to be used in such instances may create doubts about achievement of value for money.
- Insufficient observation of internal controls especially segregation of duties and supervision in the identification of suppliers and effecting of the payments.
- Procurement from prequalified suppliers is also likely to be an issue.

7.0 OTHER RESOURCES

The Institute of Certified Public Accountants of Uganda (ICPAU) published, on its website, resources relating to COVID-19. These include:

- The COVID-19 Business Recovery and Continuity Toolkit; and
- COVID-19 Guidance for Auditors.

Similarly, ICPAU published COVID-19 related articles on its online magazine, The Today's Accountant. These are:

(i) COVID-19: Business Resilience Tips for SMEs;
(ii) COVID-19 and Business Recovery;
(iii) Maintaining Audit Quality Amidst the COVID19 Pandemic; and
(iv) COVID-19: Before you donate to the National Fund.

ICPAU compiled a number of useful COVID-19 related resources that were published by different organisations around the world on Audit & Assurance, Public Sector Reporting, PFM, Tax and Economic Policy, Financial Reporting and Business Advisory. These are available on the ICPAU website COVID-19 landing page.