### 2 THE FRAMEWORK OF AUDITING IN UGANDA

**2.1** **Regulation of auditing** **and its importance**

The regulatory framework for auditing include national laws like the Companies Act, international standard setters, auditing standards, professional bodies, codes of ethics for accountants and corporate governance.

Regulation improves the value of auditing to shareholders and the general public as auditing is done by independent auditors following common standards. It increases public confidence in the auditing profession, improves the credibility of financial statements and enhances public confidence in audited financial statements.

The regulatory framework is used as a benchmark in assessing the performance of the profession. Where auditors do not meet the standards, disciplinary action can be taken to maintain the integrity of auditors and the quality of audit. The framework may be reviewed following public concern over corporate scandals.

**2.2** **Uganda Companies Act:** **Appointment, duties, rights, remuneration & removal of an**

 **external auditor**

**Appointment (S 167)**

As per Section 167 of the Companies Act, a practising accountant with a valid certificate of practice is appointed as an external auditor of a company:

1. **By directors:**
2. In case of the first auditor who may hold office up to the first annual general meeting (AGM).
3. To fill a casual vacancy in the office of the auditor e.g. after the resignation or death of one auditor partner.
4. **By shareholders by ordinary resolution:**
5. At each annual general meeting (AGM) of a company to hold office until the end of the next AGM.
6. At a general meeting (GM) when the directors have failed to appoint the first auditor of a company.
7. At a GM to replace the first auditor appointed by directors where a nomination notice of not less than fourteen days before the meeting has been given by a shareholder to the shareholders of the company.
8. **By the Registrar of Companies** to fill a casual vacancy when no auditor has been appointed or reappointed by shareholders at the AGM.

**Disqualification for appointment (S 169)**

The following persons are disqualified from being appointed as external auditor of a company by Section 189 of the Companies Act:

1. Persons who are not registered and issued with a practicing certificate by the ICPAU or an accounting firm not licensed by the Institute and a firm where every partner is not a member of the Institute.
2. An officer (e.g. a director) of the company.
3. An employee of the company.
4. A person who is a business partner or an employee of the above in the case of a public company.
5. A subsidiary or holding company.
6. A body corporate as limited liability of companies would expose audit clients to more risk.

**Duties (Schedule 5)**

Schedule 5 to the Companies Act requires external auditors to determine whether:

1. In their opinion, the financial statements give a **true and fair view** of the financial position of the company at the end of the financial year and of its financial performance and its cash flows for the year.
2. The financial statements comply with the **IFRSs and the Companies Act**, 2012
3. They have obtained all the **information and explanations** considered necessary for the audit.
4. In their opinion, **proper books of account** have been kept and proper returns for the audit have been received from branches not visited by them.
5. The Company's financial statements are in **agreement** with the books of account and returns.
6. The information in the **directors' report** is consistent with the financial statements.
7. The disclosure of **directors' benefits** has been made in accordance with the Companies Act

**Rights (S 170)**

According to Section 170 of the Companies Act, an external auditor has a right to:

1. **Access** all accounting records of the company at all times.
2. Require from the officers of the company such **information and explanation** as he or she thinks is necessary for the performance of the duties of the auditors.
3. To receive **notice** to attend all general meetings of the company.
4. To be **heard** at all general meetings on any company business concerning the auditor.
5. Receive a copy of any written **resolution** of the company regarding the affairs of the auditor.

**Remuneration (S 167)**

Section 167 of the Companies Act requires the remuneration of an external auditor to be fixed by:

1. The company in a general meeting or in a way determined by the company in a general meeting e.g. where this delegated to directors.
2. Directors or the Registrar for an auditor appointed by the directors or the Registrar respectively.

**Removal (S 168)**

According to Section 168 of the Companies Act, the external auditor can be removed from office by shareholders using the following procedures:

1. Special notice (*of at least 28 days*) is required for a **resolution** at a company’s AGM appointing a person as auditor other than a retiring auditor or providing expressly that a retiring auditor shall not be re-appointed.
2. The company sends a copy of the **notice to the retiring auditor**, if any.
3. The auditors may make **written representations** on why they should remain in office that should be sent to shareholders or read at the meeting, unless court has declared that auditor is abusing the law.
4. The auditors have the right to attend and **defend** themselves at the general meeting.
5. Shareholders **vote** at the AGM on the resolution to remove the auditor from office.

Common reasons for the removal of the auditor (although not listed in the Act) include the following:

1. When the directors have **lost faith** in the auditors e.g. failing to detect a material fraud during the audit.
2. Where the **size of the client** has increased and management requires a larger firm of auditors.
3. **Rationalization** of auditors e.g. a subsidiary having one auditor with the holding company.
4. **Incompatibility** between management and auditor e.g. disagreement on audit finding etc.
5. Threat by the auditors to **expose management fraud**.

In other countries like Kenya and the UK, the law requires the following during the resignation of the auditor:

1. The auditor before resigning has to deposit written notice together with statement of circumstances relevant to members/creditors or statement that no such circumstances exist at the company’s registered office.
2. The company sends the notice of resignation and statement of circumstances to the Registrar of companies and everyone entitled to receive a copy of the financial statements.
3. The auditors can require directorsto call an extraordinary general meeting to discuss circumstances of resignation.

**2.3 International Federation of Accountants (IFAC), International Auditing and Assurance**

 **Board (IAASB) and International Standards on Auditing (ISAs)**

**IFAC**

IFAC is a non-profit, non-governmental organisation of accountancy bodies. The IFAC mission is to:

1. Strengthen the global accountancy profession.
2. Establish and promote adherence to high quality professional standards.
* The Institute of Certified Public Accountants of Uganda (ICPAU) and the Association of Chartered Certified Accountants (ACCA) are members of IFAC.
* The International Auditing and Assurance Board (IAASB) is a technical committee of IFAC.

**IAASB**

* The IAASB develops and issues International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) on behalf of IFAC.
* The IAASB standards do not override local laws and regulations.
* The standards contain basic principles and procedures used in auditing and other assurance engagements.

**The development of IAASB standards** (see diagram):

**a)** A task force is established by the IAASB to develop a draft standard based on **research and consultation**.

**Research and consultation**—A project task force is ordinarily established with the responsibility to develop a draft standard

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**b)** The draft standard is **discussed and debated** at an IAASB meeting that is open to the public.

**c)** An **exposure draft** (ED) is placed on the IAASB website and is distributed for public comment for a period not shorter than 120 days.

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is issued on the IAASB’s website and is widely distributed for public comment by the IFAC members and other interested parties for a minimum of 120 days.

**d) Comments are considered** and the ED may be revised. If the changes are considered substantial, the revised ED may be reissued for further comment.

**e) Approval of the standard** is made by an affirmative vote of least two-thirds of the IAASB members.

**Status of ISAs**

* Varies between countries.
* Some countries like the USA have national standards but are aligned with principles of ISAs.
* Some countries have adopted ISAs with no additional guidance.
* Some countries like Uganda have adopted ISAs with additional guidance and are mandatory.

**2.4 Regulation by professional bodies**

Professional bodies like the ICPAU and ACCA have regulations relating to:

1. Pre-qualification education and training for accountants.
2. Continuous professional education by conducting workshops for accountants and auditors.
3. Adherence to Codes of ethics requirements and takes disciplinary action for non-compliance.
4. Inspection of audit firms for using a proper audit approach and charging appropriate audit fees.

**Functions of the ICPAU**

The ICPAU was established by the Accountants Act 2013 to:

1. Regulate and maintain the standard of accountancy in Uganda.
2. Prescribe and regulate the conduct of accountants and practicing accountants in Uganda.

An accountant is a person enrolled as a member of the ICPAU. A person practices accountancy if he or she performs services involving auditing, verification and certification of financial statements or renders any services defined as practicing accountancy by the ICPAU.

**Membership to ICPAU**

One is eligible to be a full member of ICPAU if a person:

1. Passes the qualifying examinations of the ICPAU and completes the required practical training of at least three years under the supervision of a member of the Institute or at an approved entity.
2. Is a member of an accountancy body approved by the Council of the ICPAU as being a society or institute with a status equivalent to that of the Institute and the person passes the qualifying examinations conducted by the Institute and completes the practical training prescribed by the Council.

**Requirements to practice accountancy in Uganda**

1. An accounting firm is licensed and all its partners have annual practicing certificates issued by the ICPAU.
2. A member or accountancy firm must not have contravened the Professional Code of Ethics.
3. A member must not have major pending disciplinary case(s).

**The structure of an accounting firm**

Partners must be registered practising accountants usually with more than ten years of experience. Managers are registered accountants with more than five years of experience, senior auditors with at least two to five years of experience and audit associates may be with limited or no experience.

**Audit Partner**

* Owns the accounting firm and has overall responsibility for the audit
* Discusses terms & signs the engagement letter
* Ensures compliance with the code of ethics, ISAs & IFRSs
* Conducts the final audit review & reviews the opinion
* Signs an audit report on behalf of the firm

**Audit manager**

* Manages the overall audit engagement & may manage more than one audit engagement
* Detailed review of the work of the senior auditors
* Manages relations with the client

**Audit supervisor**

* Performs & supervises field audit work daily
* Supervises and review work of Audit assistants

**Audit associate**

Performs most detailed audit work in low risk areas

 **2.5 Corporate governance**

 **Definition and importance**

Corporate governance is the internal systems or rules by which entities are directed and controlled.

Corporate governance:

* Promotes the separation of power in an entity and the effective functioning of the board.
* Promotes ethical behavior and compliance with laws and regulations.
* Reduces cases of fraud and corruption, risks and potential for losses to shareholders.
* Improves the reputation of an entity and company performance.

An audit is a very important part of corporate governance as it is an independent check on what the directors are reporting to the shareholders. Auditors should assess how an entity complies with corporate governance principles when planning an audit.

Corporate governance in Uganda is promoted among others by:

* The Companies Act 2012 and the Financial Institutional Act 2004.
* The Institute of Corporate Governance of Uganda that has issued a manual on corporate governance.
* The Capital Markets Authority (CMA) that has issued corporate guidelines for listed companies in Uganda.

**Principles of corporate governance**

The CMA issued the following corporate governance principles for listed companies that may also be followed as best practice by other corporate entities:

1. **The board of directors should:**
2. Be e**ffective** to offer strategic guidance, control the company and that is accountable to its shareholders and responsible to its stakeholders e.g. meets regularly.
3. Have at least one-third of non-executive directors (NED) who are not part of the executive management team in order that they act as a balance to executive management.
4. Appoint a **Nominating Committee** composed of majority non-executive directors responsible for proposing new nominees for the board and for assessing the performance of directors.
5. Appoint a **Remuneration Committee** or assign a mandate to the Nominating Committee to recommend to the Board the remuneration of the executive directors.
6. Be remunerated based on **corporate performance** including a share option scheme so as to ensure the maximization of shareholder value.
7. Be **re-elected** at regular intervals or at least every three years.
8. **Position of chairperson of the board and chief executive:**
9. Should be held by different people to ensure a balance of power of authority and provide for checks and balances so that no individual has a lot of powers in decision-making.
10. The chairperson of a public listed company should be an independent or non-executive director.
11. No person shall be chairperson of more than two public listed companies at any one time.
12. **Rights of shareholders**
13. All shareholders should receive relevant information on the company’s performance through distribution of regular quarterly, half yearly and annual financial reports.
14. There should be shareholder’s participation in all major decisions of the company like the disposal of company assets, restructuring, takeovers, mergers, acquisitions or reorganizations.
15. **Accountability and the role of audit committees**
16. The board should maintain sound risk management and **internal control** systems to safeguard assets.
17. The board should establish a formal and transparent arrangement for shareholders to effect the appointment of **independent external auditors** at each annual general meeting.
18. The board must establish an **audit committee** with a majority of independent and non-executive directors who report to the board. The chairperson of the audit committee should be an independent or non-executive director, and the board should disclose in the annual report, whether it has an audit committee and the mandate of that committee.
19. The board should establish an independent and effective **internal audit** function.

For unlisted companies, the board should consider the need for the internal audit function annually.

**Functions of an Audit Committee**

An **audit committee** is a sub-committee of the board of directors, usually containing a number of independent non-executive directors. Its functions are to:

1. Monitor the integrity of **financial statements** e.g. reviewing:
2. Changes in accounting policies.
3. Significant adjustments arising from the audit.
4. The going concern assumption.
5. Compliance with the IFRSs, stock exchange and other legal requirements.
6. Review the company’s **internal control** and risk management systems.
7. Monitor and review the effectiveness of the company’s **internal audit** function. Where is no audit function, to consider annually whether there is need for one.
8. To recommend **appointment and removal** of the external auditor.
9. To approve the **remuneration** of the external auditor.
10. Monitor the **independence** and objectivity of the external auditor.
11. Review the external auditor’s **management letter(s)** and management’s response.
12. To implement policy on the supply **non-audit services** by the external auditor**.**
13. Monitor arrangements safeguarding the privacy of **whistle-blowers.**

**Advantages of an Audit Committee**

1. Increases **confidence** in credibility and objectivity of financial reports**.**
2. Allows executive directors to **focus on management** as the audit committee can handle financial reporting.
3. Provides an **impartial body** for internal auditors to report which increases their independence.
4. Provides an **independent point of reference** for the external auditors.

**Disadvantages of an audit committee**

1. There may be difficulty selecting **sufficient non-executive directors** with the necessary competence in auditing matters for the audit committee to be really effective.
2. The formalized reporting procedures may **dissuade auditors** from raising matters of judgment and limit them to reporting only matters of fact.
3. **Costs** may be increased.

**2.6 The code of ethics for accountants in Uganda**

**Fundamental principles**

The ICPAU and the [**International Ethics Standards Board for Accountants (IESBA)**](http://www.ifac.org/Ethics)codes identify the following fundamental principles that Members, affiliates and students must comply with (see diagram below).

**Fundamental principles**

* Integrity
* Objectivity
* Professional competence & due care
* Confidentiality
* Professional behavior

**Fundamental principles**

1. **Integrity** means honesty, fair dealing and truthfulness. Accountants should behave with integrity in all professional and business relationships.
2. **Objectivity** means to not allow bias, conflict of interest or undue influence of others to override judgments.
3. **Professional competence and due care** meansto undertake work one is competent to perform and acting diligently i.e. carry out work with due skill, care, diligence and expedition.
4. **Confidentiality** meansmembers should not disclose information received during the course of their work without first obtaining permission from their clients.
5. **Professional behavior** meansaccountants should conduct themselves in a manner that portrays a positive image of the profession and avoid any action that discredits the profession.

**Confidentiality**

Members may disclose client information without obtaining permission in the following circumstances.

**Voluntary disclosure**

**Professional duty or right to disclose**

1. To comply with the **quality review** of a professional body like the ICPAU
2. To respond to an **investigation** of a regulatory body
3. To protect the **accountant’s interests** in legal proceedings
4. To comply with technical **standards** or professional standards
5. Where disclosure is in public interest

**Obligatory disclosure**

**(Disclosure required by law)**

1. When giving evidence in **legal proceedings**
2. Disclosure to public authorities where there is **infringement of law** e.g.terrorism or money laundering

**Non-compliance with laws and regulations (ISA 250)**

The auditor should:

1. Obtain an understanding of thenon-compliance with laws and regulations matter.
2. Discuss with an appropriate level of management (at least one above involved or potentially involved).
3. Advise the client to rectify the consequences, deter any future instances or disclose to whoever is considered in a position to need to know.
4. Consider the client's response and whether it indicates any concerns over their integrity.
5. Consider whether disclosure to an appropriate authority should be made (if applicable laws and regulations allow) or if withdrawal from the engagement may be necessary.
6. Document all decisions, discussions and judgements.

**Integrity, objectivity and independence**

Professional accountants are required to be independent of clients when providing assurance engagements.

An accountant **should** **to be and should appear to be independent** of clients. There are two types of independence:

* **Independence of mind** – this is a state of mind that allows the auditor to make professional judgments and conclusions without influences and exercise objectivity. This is what is referred to as ‘to be independent’.
* **Independence in appearance** – this is the avoidance of circumstances that are likely to compromise the auditor’s objectivity. This is what is referred to as ‘to appear to be independent’.

**Threats to the fundamental principles**

**Threats to the principles**

1. Self-interest threat
2. Self-review threat
3. Advocacy threat
4. Familiarity threat
5. Intimidation threat
* **Self-interest threat** is the risk that a financial or other interest in a client will inappropriately influence the accountant’s judgment or behavior. For example, auditors owning shares in an audit client or receiving gifts from an audit client.
* **Self-review threat** ariseswhere an accountant from an audit firm performs work for the client and this work must later be reviewed by the same person or another accountant from the same firm in order to arrive at a judgement on the same subject matter e.g. preparing financial statements and later auditing them.
* **Advocacy threat** is the risk that an accountant promotes a client’s position compromising his or her objectivity. For example, an auditor handling a client’s tax appeal case with URA or promoting shares in a listed audit client.
* **Familiarity threat** is the risk that due to long or close relationship with a client, an accountant could be too sympathetic to their interests or too accepting of their work. For example, if a firm has audited a client for several years, the auditor may not question the information presented by the client as closely as in the initial years.
* **Intimidation threat** is the risk that an accountant is deterred from acting objectively because of actual or perceived pressures from a client. For example, a client may threaten not to reappoint an auditor if a modified audit report is issued.

Appropriate **safeguards** must be put in place to eliminate or reduce the threats to an acceptable level.

**Threats arising from financial matters and safeguards**

**Financial matters**

* Financial interests
* Loans and guarantees
* Fees
* Gifts and hospitality

**Financial interests**

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| **Threats** | **Safeguards** |
| Financial interests may create a **self-interest threat.** |
| Examples include ownership of shares in a client by: * The audit firm
* An audit team member
* An immediate family member of the audit team member

A self-interest arises as the audit firm, audit team member or an immediate family member would benefit personally if the client’s financial performance improved. | 1. Sale of shares
2. Remove the individual from the audit team
3. Inform audit committee
4. Review by an appropriate reviewer e.g. an independent partner
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**Loans and guarantees**

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| **Threats** | **Safeguards** |
| Loans or guarantees might create a **self-interest threat**. |
| 1. Loans or guarantees with an audit client that is a bank:
2. Loans or guarantees to the firm:
* No threat if immaterial to the audit client or firm and on normal terms
* If material to the audit client or firm, apply safeguards
1. Loans to an audit team member or their immediate family:

 Not a threat to independence if on normal commercial terms  | Review of work performed by a professional accountant from outside the firm. |
| 1. Loans or guarantees with an audit client that is not a bank:

Loans or guarantees to or from the firm, audit team member or immediate family | No safeguard can reduce the threat unless the loan is immaterial to the client and the firm or team member. |

**Fees**

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| **Threats** | **Safeguards** |
| Fees might create a **self-interest** **or intimidation threat** |
| 1. **High percentage of fees**

When a firm receives a high proportion of its fee income from just one audit client there is **a self-interest** or **intimidation threat**, as the firm will be concerned about losing the client. | 1. Increase the audit firm’s client base to reduce dependence on the client.
2. Discuss with the audit committee.
3. Resign from other services.
4. External quality review.
5. Consult the ICPAU or another accountant on any key audit areas requiring judgement.
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| If the total fees from a **public interest** audit client is **more than 15%** of the total fees received by the firm for two consecutive years, then there is likely to be undue dependence on the client and the firm should put safeguards in place.  | 1. Disclose this to those charged with governance.
2. Pre-issuance review on the second year’s financial statements prior to the auditor’s opinion being issued
3. Post-issuance review on the second year’s financial statements after the auditor’s opinion has been issued
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| 1. **Overdue fees**

When a significant part of fees is not paid before the audit report for the following year is issued, this might create a self-interest threat.The firm may issue a favourable opinion rather than possibly lose the amount owed. | 1. Obtain partial payment of overdue fees.
2. Discuss with audit committee.
3. Consider resignation if overdue fees are not paid.
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| 1. **Contingent fees**

These are fees calculate on a predetermined basis relating to the outcome of a transaction or the results of services performed.This creates a **self-interest threat**. | 1. No safeguards are acceptable. No contingent fees are allowed for audit services.
2. However, contingent fees may be permitted for non-assurance work provided that adequate safeguards are applied.
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**Gifts and hospitality**

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| **Threats** | **Safeguards** |
| Accepting gifts and hospitality from an audit client may create a **self-interest, familiarity or intimidation threat.** |
| 1. Accepting gifts from a client may create aself-interest because the firm or individual may feel obliged to give a favourable opinion.
2. Acceptance of gifts may also be perceived as a bribe.
3. Hospitality from a client may give rise to a familiarity threat.
 | Gifts and hospitality should not be accepted unless the value is **trivial** and **inconsequential.** |

**Threats arising from employment and other relationships**

**Employment and other relationships**

* Business relationships
* Personal relationships
* Employment
* Long association
* Actual or threatened litigation

**Business relationships**

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| **Threats** | **Safeguards** |
| A close business relationship with an audit client or its management might create a **self-interest** or **intimidation threat.** |
| Examples include:* Holding an interest in a joint venture with a client.
* Arrangements to combine services or products of the firm with services or products of the audit client and to market these with reference to both parties.
* Distribution of a client's products or services.
 | 1. Disposal of firm’s interest unless clearly **insignificant**.
2. Removals from the audit team any individual audit member who has an interest in the client.
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**Personal relationships**

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| **Threats** | **Safeguards** |
| Family or personal relationships with the client personnel may create **self-interest**, familiarity or **intimidation threat.** |
| 1. **Immediate or close family** of an audit team member

**Immediate family** is defined as a spouse or dependent.**Close family** is defined as a parent, child or sibling who is not an immediate family member.A self-interest, familiarity or intimidation threat is created when an immediate/close family member of an audit team member is an employee in a position to exert significant influence over the client’s financial statements. The level of the treat depends on:* The position held by the immediate family member.
* The role of the audit team member.
 | 1. Restructure the audit team’s duties so that the audit member does not deal with matters that within the responsibility of the immediate/close family member.
2. Remove the individual from the audit team.
3. Review of the partner’s audit work by an appropriate reviewer.

This is required when a member of the immediate/close family:* Is a director or officer of the audit client.
* Is an employee in a position to exert significant influence over preparation of the client’s accounting records or financial statements on which the firm will express an opinion.
* Was in such a position during any period covered by the engagement of the financial statements.
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**Employment**

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| **Threats** | **Safeguards** |
| Where a partner or employee of the firm leaves to join an audit client, this might create **self-interest**, **familiarity** or **intimidation threat.** | 1. Consider modification of the audit plan.
2. Change members of the audit team.
3. Review by an appropriate reviewer.
4. Quality review.
5. When a key audit partner joinsa **public interest entity** as a director or as an employee with significant influence on the financial statements, independence would be compromised unless:
* The client had issued audited financial statements covering a period of not less than 12 months since the partner ceased to be a key audit partner.
* The partner was not part of the audit team which audited those financial statements.
 |
| Where a director or employee of the audit client leaves the audit client to join the firm, a **self-interest, familiarity or self-review threat might be created.** | * The individual should not be assigned to the audit team if the work they performed while employed by the client is to be evaluated in the current period as part of the current audit engagement.
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**Long association**

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| **Threats** | **Safeguards** |
| When an individual is involved in an audit engagement over a long period of time, **familiarity or self-interest** threats might be created. | 1. Independent partner review
2. Independent quality review
3. Rotation of senior staff
 |
| **For public interest entities:** | **Rotate after** | **Cooling-off period** |
| Engagement partner | Seven years | Five years |
| Engagement quality reviewer | Seven years | Three years |
| Key audit partner | Seven years | Two years |

A key audit partner is responsible for key decisions in the audit of financial statements but is not and engagement partner or engagement quality reviewer.

**Actual or threatened litigation**

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| **Threats** | **Safeguards** |
| When litigation with an audit client occurs or appears likely, **self-interest or intimidation** threats are created. | 1. Disclose to the audit committee
2. Removal of individual involved in litigation from the assurance team.
3. Refuse to perform the assurance engagement
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**Threats arising from provision of non-assurance services**

**Provision of non-assurance**

* Preparing accounting records and financial statements
* Tax services
* Internal audit services
* Recruiting services

**Preparing accounting records and financial statements**

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| **Threats** | **Safeguards** |
| Providing accounting and book-keeping services to an audit client might create a **self-interest threat** as the firm in unlikely to criticize its own work and decisions. | If the client is not a public entity:1. Accounting services should not be performed by the audit team staff.
2. The client must provide all source data.
3. The client must approve all journal entries.
4. Discuss non-audit services with the audit committee.

If the client is a public entity:The provision of accounting or book-keeping services is **not permitted.** |

**Tax services**

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| **Threats** | **Safeguards** |
| Providing tax services may create **self-review or advocacy threats** depending on the type of service. |
| **Tax return preparation**  | 1. Does not usually create a threat as they involve analysis and presentation of historical information under existing tax law and practice.
2. Management must take responsibility for tax returns.
 |
| **Tax calculations for the purpose of preparing accounting entries**The subsequent audit of the calculations creates a **self-review** threat. The level of threat depends on whether the calculations have a material effect on the financial statements. | 1. Calculations must not be performed by a member of the audit team.
2. Independence review of audit work should be conducted by a reviewer who was not involved in providing the service.
3. Tax calculations may not performed for public interest entities.
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| **Tax planning and other tax advisory services**May create **self-review or advocacy threats** | 1. Services must not be performed by a member of the audit team.
2. Independence review of audit work should be conducted by a reviewer who was not involved in providing the service.
3. Such services may not be performed where the tax advice depends on the accounting treatment in the financial statements and the audit team has reasonable doubt on its appropriateness and the outcome of the tax advice will have a material effect on the financial statements being audited.
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| **Assistance in the resolution of tax disputes**May create a self-review threat. | 1. Assistance services must not be provided by a member of the audit team.
2. Independence review of audit work should be conducted by a reviewer who was not involved in providing the assistance.
3. Such services may not be provided if they involve the firm acting as an advocate for the audit client before the Tax Appeal Tribunal or court and the amounts involved are material to the financial statements being audited.
 |

**Internal audit services**

|  |  |
| --- | --- |
| **Threats** | **Safeguards** |
| Providing internal audit services to an audit client may create a **self-review threat** if the audit team plan to rely on the work of the internal audit department. | 1. Stipulate that the audit client is responsibility for the internal control systems including internal audit.
2. Independent partner review to ensure appropriate reliance is placed on internal audit and that work is rigorously audited.
3. Internal audit services for public interest entities must not be provided if they relate:
* A **significant part** of the internal controls over financial reporting.
* **Financial accounting systems** generating information which is significant to the financial statements.
* Amounts or disclosures which are **material** to the financial statements.
 |
| A threat to objectivity from assuming management responsibility may arise if the firm makes decisions on behalf of the client when providing internal audit services. | Client is reminded that it must evaluate and determine which recommendations of the firm should be implemented. |

**Recruiting services**

|  |  |
| --- | --- |
| **Threats** | **Safeguards** |
| Providing recruiting services to an audit client may create **self-interest, familiarity or intimidation threats.** | 1. Audit firms must not make **management decisions** for the client when shortlisting or interviewing candidates.
2. Audit firms should not provide a recruiting service to an audit client if it relates to a director or senior manager with significant influence over the preparation of the client’s accounting records or financial statements on which the firm will express an opinion.
 |

**Conflicts of interest**

An accountant must take reasonable steps to identify circumstances that could pose a conflict of interest as such circumstances may create threats to compliance with **objectivity** and other fundamental principles.

Such threats might arise from:

* Conflicts between members' and clients' interests.
* Conflicts between the interests of different clients.

An accountant in public practice and firms should not accept or continue engagements in which there are or are likely to be significant conflicts of interest between members, firms and clients as there may be leakage of information from one client to another.

Safeguards to reduce threats arising from conflicts of interest:

1. Notify all known relevant parties and obtain their consent.
2. Use separate engagement letters.
3. Procedures to prevent access to information e.g. using separate teams and secure data access.
4. Clear guidelines for members of the engagement team on issues of security and confidentiality.
5. Use of confidentiality agreements signed by employees and partners of the firm.
6. Regular review of the application of safeguards by an independent partner or other senior individual.
7. Advise one or more clients to seek additional independent advice.

**Audit fees and other types of remuneration**

The code requires accountants in public practice to charge appropriate fees for services offered to clients and to assign appropriate time and qualified staff to the task. An auditor should not enter into fee arrangements that may compromise his or her independence.

Fees should be based on:

1. The **knowledge, skills and expertise** needed for the work.
2. The **seniority** of the persons involved in the audit.
3. The t**ime** required to carry out the service.
4. The **nature** of the responsibility which the work entails.

Quoting a fee lower than another accountant (**lowballing)** is not in itself unethical, although it may create a self-interest threat to competence and due care if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

Safeguards include the following:

1. Inform the client of the basis on which fees are charged and make an advance written agreement with the client as to the basis of remuneration.
2. Fees should not be dependent on the provision of future audits or other services.
3. Obtain advance agreement from the client for a commission from the sale by a third party of goods or services to the client.

**2.7 Phases of an external audit**

An external audit is divided into four main phases (see diagram):

ENGAGEMENT

PLANNING

PERFORMANCE

COMPLETION & REPORTING

1. **Engagement phase**

The auditor performs **engagement acceptance** procedures to ensure high risk clients are avoided and there is staff to undertake the audit and compliance with ethical requirements.

1. **Planning phase**

The auditor obtains understanding ofthe entity and its environment, assesses the risk of material misstatement, establishes an overall audit strategy and develops an audit plan.

1. **Performance phase (Fieldwork phase)**

In response to the assessed risks of material misstatement, the auditor collects sufficient and appropriate audit evidence by performing audit procedures.

1. **Completion and reporting phase**

Theauditor carries out analytical review, subsequent events review, going concern review, management representations review, overall review of evidence and forms an opinion in an audit report.

**2.8 Obtaining and agreeing to terms of audit engagements**

**Advertising**

Members are forbidden from seeking professional work by means of advertising, the issue of circulars or cards

or by any other form of solicitation.

**Accepting nomination as auditor**

Before accepting nomination the auditor must:

1. Ensure is **professionally qualified** on legal and ethical grounds.
2. Ensure existing **resources** are adequate i.e. time available, staff and technical expertise.
3. Obtain **references** if directors are not known personally**.**
4. Communicate with **present auditors** to determine whether they are any reasons as to why they should not accept appointment as auditors.
* If the audit client refuses permission to the outgoing and incoming auditors to communicate, the appointment should be declined.

After accepting nomination, the incoming auditor should:

1. Ensure the outgoing auditor’s **removal or resignation** was conducted in accordance with the law.
2. Ensure the new **appointment** is properly conducted and obtain a copy of the resolution passed.
3. Agree the **terms of the engagement**.

**Client screening**

In addition to contacting the previous auditor, many audit firms especially the big ones carry out the following when screening potential clients.

1. **Management integrity** especially if the entity is controlled by one or a few dominant personalities.
2. **Risk** assessed as low or high**.**

|  |  |
| --- | --- |
| Low risk | High risk |
| Good long term prospects | Poor recent or forecast performance |
| Well-financed | Likely lack of finance |
| Strong internal controls | Significant control deficiencies |
| Conservative, prudent accounting policies | Questionable, doubtful accounting policies  |
| Competent , honest management | Lack of finance director |
| Few unusual transactions | Significant level of party or unexplained transactions |

* High assessed risk should be identified and documented and industry specialists may be engaged as independent reviewers.
1. **Engagement economics**
* Expected fees from a new client should reflect the level of risk expected.
* However, an audit firm may accept a new client to gain entry into a new industry or have better contacts.
1. **Relationship with client**

An audit firm may want a long-term relationship with a client to earn fees for several years and also to have better knowledge of the client in order to offer better service.

1. **Ability to perform**
* The audit firm must have resources to perform the work properly, having specialist knowledge or skills.
* The impact on existing engagements must be estimated in terms of staff time and timing of the audit.

**Preconditions for an audit**

ISA 210 *Agreeing the terms of audit engagement* requires auditors to accept a new audit engagement after assessing whether the following preconditions for an audit are present:

1. Management using an acceptable **financial reporting framework** required by laws and IFRSs.
2. Obtain management’s agreement (written representation) that it understands its responsibilities for:
3. Preparing **financial statements** that show a true and fair view using the reporting framework.
4. **Establishing internal control** to ensure the financial statements are free of material misstatement.
5. Providing the auditor **unrestricted access** to all records and staff.
* If the preconditions for an audit are not present, the auditor should not accept the proposed engagement.

**Engagement letter**

ISA 210 requires the auditor to accept or continue an audit engagement only when the auditor has agreed with management on the terms of the engagement.

* An engagement letter contains written terms of an engagement.
* The letter confirms agreement of terms of the audit engagement which minimises misunderstandings between the auditor and management.

The engagement letter must include the following (see details in Appendix 2):

1. The **objective and scope** of the audit e.g. to determine whether financial statements show a true and fair view.
2. **Auditor’s responsibilities** i.e.
3. To conduct the audit in accordance with **ISAs.**
4. To form and express an **opinion** on whether the financial statements prepared by management show a true and fair view and comply with the IFRSs and laws.
5. To communicate to management internal control **weaknesses** in a management letter.
6. **Management’s responsibilities** i.e.
7. To keep **accounting records.**
8. To have an **internal control system** to prevent and detect fraud and error, safeguard the entity’s assets and enable them prepare financial statements.
9. To prepare **financial statements** in accordance with appropriate financial reporting standards and laws.
10. To **disclose** all matters required by relevant IFRS and laws.
11. To provide the auditor with **access** to all information necessary for the audit.
12. The applicable **financial reporting framework** for financial statements e.g. IFRSs, Companies Act etc.
13. Expected **form and content reports** that FSs show a true and fair view of the entity’s affairs.

Other matters that may be included in the engagement letter are:

1. **Elaboration of scope of audit e.g.** legislation, regulations, ISAs, ethical and other pronouncements.
2. Form of **any other communication** of results of the engagement.
3. The requirement for the auditor to communicate key audit matters in accordance (where required).
4. The fact that due to the inherent limitations of an audit and those of internal control, there is an unavoidable risk that **some material misstatements** may not be detected, even though the audit is properly planned and performed in accordance with ISAs.
5. **Arrangements regarding planning and performance**, including audit team composition.
6. Expectation that management will provide **written representations.**
7. The expectation that management will provide access to all information to which management is aware that is relevant to the preparation of the financial statements.
8. **Agreement** of management to provide **draft financial statements** including all information relevant to their preparation in time to allow auditor to complete the audit in accordance with proposed timetable.
9. **Agreement** of management to inform auditor of **facts** that may affect the financial statements, of which management may become aware from the date of the auditor's report to the date of issue of FSs.
10. **Fees and billing arrangements**
11. Request for management to **acknowledge receipt** of the letter and agree to the terms outlined in it.
12. Involvement of **other auditors and experts.**
13. Involvement of **internal auditors and other staff.**
14. Arrangements to be made with **predecessor auditor.**
15. Any **restriction of auditor's liability.**
16. Reference to **any further agreements** between auditor and entity.
17. Any **obligations to provide audit working papers** to other parties.

**Matters that may require reissuing engagement letters include the following:**

1. Any indication that the entity **misunderstands** the objective and scope of the audit
2. Any **revised or special terms** of the audit engagement
3. A recent change of **senior management**
4. A significant change in **ownership**
5. A significant change in **nature or size** of the entity's business
6. A change in **legal or regulatory requirements**
7. A change in the **financial reporting framework**
8. A change in **other reporting requirements**

**Quality management of an individual audit**

ISA 220 *Quality control for an audit of financial statements* ensures that:

* The audit complies with professional standards and applicable legal and regulatory requirements.
* The auditor's report issued is appropriate in the circumstances.

The engagement partner is responsible for quality control of an engagement. This involves:

1. Leadership responsibilities for achieving quality audits
2. Relevant ethical requirements including independence
3. Acceptance and continuance of client relationships and audit engagements
4. Engagement resources e.g. human, technological etc.
5. Engagement performance i.e. direction and supervision of the engagement team and a review of work.
6. Engagement quality reviews for listed companies by the quality control reviewer.
7. **Peer review** is a review of an audit file carried out by another partner in the assurance firm.
8. A **hot review** (pre-issuance review) is a peer review carried out before the auditor's report is signed.
9. A **cold review** (post-issuance review) is a peer review carried out after the auditor's report is signed.

**Discussion question**

You are the audit manager of JJ & Co (JJC) and you are planning the audit of Victoria Computers Ltd (VCL), which has been an audit client for four years and sells laptops. During the planning stage of the audit you have obtained the following information. The employees of VCL are entitled to purchase laptops at a discount of 50%. The audit team has in previous years been offered the same level of staff discount.

During the year, the finance manager of VCL died during the world cup bomb blast in Kampala. The company had no other staff capable of replacing him and requested an audit senior of JJC to be seconded to the client for six months. The audit partner has recommended that the audit senior works on the audit as he has good knowledge of the client. The income earned from VCL was boosted by this engagement and along with the audit and tax fee, now accounts for 30% of the firm’s total income.

From a review of the correspondence files you note that the partner and the finance manager have been very close friends for many years and even went on holiday to Bwindi National Park together to see mountain gorillas. As a result of this friendship, the partner has not yet requested the client to pay 20% of the audit fees outstanding.

Required:

Explain FIVE ethical threats which may affect the independence of JJ & Co’s audit of Victoria Computers Ltd and for each threat, explain how it might be avoided.

Solution

|  |  |
| --- | --- |
| **Ethical threat**  | **Managing risk** |
| The offer of a **discount of 50%** on lap tops to the audit team appears to be a significant amount as it creates a **self-interest** threat. According to the ICPAU code, only modest amounts may be accepted. | If the discount is offered in the current year, it should not be accepted by the audit team |
| An audit senior of JJC was **seconded as finance manager** of VCL and is currently part of the audit team. This creates a **self-review** threat if the senior has prepared accounting records or the financial statements and then audits the same  | The firm should **clarify exactly what areas** the audit senior assisted the client on. If the work is on areas **not related to financial statements,** then the senior may **remain** in the audit team. However, if the work involved support **schedules or preparation of financial statements**, **t**hen the senior should be **removed** from the audit team to ensure that independence is not threatened. |
| The total fee income from VCL is 20% of the total fees for the audit firm. This is seems to be a substantial amount that is likely to create a **self-interest t**hreat.  | If the amount is considered substantial, JJC should consider **resigning from either** the tax or the audit engagement. |
| The close friendship between the **partner and the finance manager** appears to create a **familiarity or self-interest** threat. Although the ICPAU Code of Ethicsdoes not prohibit friendship between the audit client and the team, the fact that both hold senior positions, there is a risk that independence may be perceived to be threatened. | The audit partner should be **removed** from this engagement and replaced with another partner. |
| The **outstanding last year’s audit fee** amounting to 20% of the total fee appears to be significant and may create a **self-interest** threat as JJC may have pressure to agree to certain accounting adjustments in order to have the previous year and the current year fee paid. The may be **perceived as a loan** to a client that is prohibited by the code. | JJC should **chase** payment of the outstanding fees. If they remain outstanding, the firm should **discuss** with directors the reasons for the continued non-payment and agree a **payment schedule** that will ensure that the fees are settled before much more work is performed for the current year audit.  |

**2.9 Revision questions**

1. The Institute of Certified Accountants of Uganda (ICPAU) is an autonomous corporate national body for professional accountants in Uganda. Required:
2. State the **TWO** key functions of the ICPAU.
3. State the requirements of the Accountants Act to practice accountancy in Uganda:
4. Distinguish between a full member and an associate member of the ICPAU.

**2)** The Uganda Companies Act sets out the requirements for an external auditor of a company.

Required:

**a**) Explain the **THREE** waysin which an external auditor of a company is appointed.

**b)** State **FOUR** duties of an external auditor of a company.

**c)** State **FOUR** rights of an external auditor of a company.

**d)** Explain how an auditor of a company is remunerated.

 **f)** Explain the procedures that are followed to remove an external auditor of a company.

**3)** The Institute of Certified Public Accountants of Uganda adopted the use of the International Standards of Auditing (ISAs) produced by the International Audit Assurance Standards Board (IAASB) in Uganda.

 Required:

**a)** Explain the process of developing the ISAs by the IAASB.

**b)** Explain the authority of ISAs.

**4)** All accountants in Uganda must abide with the codes of ethics of the Institute of Certified Public Accountants of Uganda (ICPAU) and the [International Ethics Standards Board for Accountants (IESBA):](http://www.ifac.org/Ethics)

 Required:

**a)** Explain any FIVE fundamental principles of these codes of ethics.

**b)** Explain the importance of independence to the auditor and what is meant by the phrase, ‘the auditor must be and must appear to be independent of the client’.

**c)** State the **FIVE** threats to independence and objectivity and for EACH threat identify ONE example of the circumstance that may create the threat.

**d)** The code requires all accountants to keep information of clients or employers confidential. Explain:

1. The importance of confidentiality to the auditor and the client.
2. Circumstances when an accountant may disclose a client’s confidential information.

**e)** Explain the basis for charging audit fees by an external auditor.

**5)** ISA 210 *Agreeing the terms of audit engagements* provides guidance on the content of engagement Letters and the auditor agreeing with the terms of the audit engagement with management.

Required:

**a)** Explain the preconditions for an audit that should be present before an audit engagement is accepted.

**b)** Explain the matters an auditor should consider before accepting a new audit engagement.

**c)** State **FIVE** matters that may be included in an etiquette letter by a predecessor auditor.

**d)** State the purpose of an audit engagement letter.

**g)** State **FIVE** items that may be included in an audit engagement letter.

**h)** State **FOUR** circumstances that may lead to another audit engagement letter from an existing client.

**Appendix 1 International Standards on Auditing as at 1.1.2024**

|  |
| --- |
| **ISA Category/Title** |
| **200**–**299 General principles and responsibilities** |
| 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with  International standards on Auditing |
| 210 Agreeing the Terms of Audit Engagements |
| 220 Quality Control for an Audit of Financial Statements\* |
| 230 Audit Documentation  |
| 240 The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements  |
| 250 Consideration of Laws and Regulations in an Audit of Financial Statements |
| 260 Communication with Those Charged with Governance (Revised) |
| 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management |
| **300**–**499 Risk assessment and response to assessed risks** |
| 300 Planning an Audit of Financial Statements |
| 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its  Environment (Revised) |
| 320 Materiality in Planning and Performing an Audit |
| 330 The Auditor’s Responses to Assessed Risks |
| 402 Audit Considerations Relating to an Entity Using a Service Organization |
| 450 Evaluation of Misstatements Identified during the Audit |
| **500**–**599 Audit evidence**  |
| 500 Audit Evidence  |
| 501 Audit Evidence – Specific Considerations for Selected Items  |
| 505 External Confirmations |
| 510 Initial Audit Engagements – Opening Balances  |
| 520 Analytical Procedures  |
| 530 Audit Sampling  |
| 540 Auditing Accounting Estimates, Including Fair Value Estimates and Related Disclosures |
| 545 Auditing Fair Value Measurements and Disclosures  |
| 550 Related Parties  |
| 560 Subsequent Events  |
| 570 Going Concern (Revised) |
| 580 Written Representations |
| **600**–**699 Using the work of others** |
| 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)\* |
| 610 Using the work of Internal Auditors (Revised 2013) |
| 620 Using the Work of an Auditor’s Expert  |
| **700**–**799 Audit conclusions and reporting** |
| 700 Forming an Opinion and reporting on Financial Statements (Revised) |
| 701 Communicating key audit matters in the independent auditor’s report |
| 705 Modifications to the Opinion in the Independent Auditor’s Report (Revised) |
| 706 Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor’s Report (Revised) |
| 710 Comparative Information – Corresponding figures and Comparative Financial Statements  |
| 720 The Auditor’s Responsibilities Relating to Other Information (Revised) |
| **800**–**899 Specialized areas** |
| 800 Special Considerations – Audits of financial Statements Prepared in accordance with Special Purpose  Frameworks\* |
| 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of Financial Statements\* |
| 810 Engagements to Report on Summary Financial Statements\* |

*\* ISAs not to be covered in this course.*

**Appendix 2 Example of an audit engagement letter**

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The Directors,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**Ltd**

P.0. Box\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Dear Sirs,

**RE: SPECIMEN AUDIT ENGAGEMENT LETTER**

Following our appointment as auditors of the company, we set out here below the basis on which *we* are to act as the auditors of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ltd and the respective areas of responsibility of the directors and of ourselves.

**Respective responsibilities of directors and auditors**

1. As directors of the company, you are responsible for maintaining accounting records, for the selection and application of appropriate accounting policies and for preparing financial statements in conformity with International Financial Reporting Standards and the requirements of the Companies Act which give a true and fair view of the state of the financial affairs of the company. You are also responsible for making available to us, as and when required, all the company's accounting and other records and information including minutes of all management, directors' and shareholders' meetings and information and explanations which we consider necessary for the performance of our duties as auditors. We are also entitled to attend all general meetings of the company and to receive notices of all such meetings.

2. We have a statutory responsibility to report to the members of the company whether in our opinion the financial statements give a true and fair view and have been prepared in accordance with the Companies Act In arriving at our opinion, we shall consider the following matters and report on:

a) Whether proper books of account have been kept by the company;

b) Whether the balance sheet, profit and loss account and the cash flow statement are in agreement with the books of account;

c) Whether we have obtained all the information and explanations; which to the best of our knowledge and belief were necessary for the purposes of our audit.

3. We also have a professional responsibility to report if the financial statements have been prepared in conformity with International Financial Reporting Standards. We have to report on all areas of non-compliance and give our opinion as to whether we concur or not with any departures.

 In determining whether or not the departure is justified, we shall consider:

a) Whether the departure is required in order for the financial statements to give a true and fair view; and.

b) Whether adequate disclosure has been made concerning the departure.

4. Our professional responsibility also extends to considering whether other information in documents containing the audited financial statements is consistent with those financial statements.

5. Assistance with the preparation of financial statements does not form part of the audit. We shall however, during the course of our audit, discuss the company's accounting policies with the directors and management particularly in any problem areas and we may propose adjusting entries for your consideration. The directors will be responsible for

 reviewing and passing of all such proposed adjustments.

6. The audit will be coordinated by one of our partners. In providing audit services, we will obtain both formal and informal consultations involving other partners and staff in order that the advice we give represents the breath of knowledge and collective experience of our firm. We may also seek independent professional advice or involve a specialist as part of our engagement team.

7. We require strict adherence of all our partners, staff and specialists on our team to the ethical rules of our profession. Therefore, in all respects of our practice, we maintain strict confidentiality towards information obtained while carrying out our professional duties. In addition, the firm's partners, staff and specialists maintain complete independence and mental attitude in relationships with clients.

8. Where the firm and \ or its associates offer other services to the company, we shall not be treated as having note, for the purposes of our audit, of information provided to the firm, its associates and members of staff other than those engaged on the audit.

9. The company may identify in writing those directors and staff who are authorised to act on behalf of your company on audit issues. In absence of any such identification by the company, we will assume that any of the directors or key management staff are so authorised.

10. The company may identify in writing those persons charged with governance with whom audit matters of governance will be communicated. In absence of any such identification, we will determine the appropriate level of communication based on the nature'-of the issue to be communicated.

11. It is fundamental to our engagement that the company provides us in good time all information and supporting documentation that is relevant to the audit, and that all matters of uncertainty are brought to our attention.

**Scope of audit**

12. Our audit will be conducted in accordance with International Standards on Auditing and will include such tests of controls, transactions and of the existence, ownership and valuation of assets and liabilities, as we consider necessary. We shall obtain an understanding of the accounting and internal financial control systems to the extent necessary in order to consider their suitability as a basis for the preparation of the financial statements and to establish whether adequate accounting records have been maintained by the company.

We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions there from. The nature and extent of our procedures will vary according to our assessment of the control environment, the company's system of internal controls and of the accounting system.

Our work may be varied on the basis of our findings during the course of an audit and from year to year. Accordingly, we may modify our audit scope, rotate our audit emphasis and propose matters of special audit emphasis, as the circumstances dictate.

As our responsibility is to report on the financial statements as a whole rather than those of the individual units or divisions, the nature and extent of our tests and enquiries at each unit or division will vary according to our assessment of the accounting system and internal financial controls. Thus, we may carry out limited work at certain units or divisions, rather than the full audit that would be necessary if we were to report on the separate accounts of the unit or division concerned.

Our audit includes assessing the significant estimates and judgments made by the directors in the preparation of the financial statements and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

 In forming our opinion, we will also evaluate the overall presentation of information in the financial statements.

**Management representations**

13. As part of our normal audit procedures, we shall request appropriate directors or management to confirm to us in writing each year matters material to the financial statements when other sufficient appropriate audit evidence cannot be reasonably expected to exist. We may also ask them to confirm in that letter that all important and relevant information has been brought to our attention.

**Detection of fraud, error and non-compliance with laws and regulations**

14. The directors are responsible for safeguarding the assets of the company, the maintenance of adequate internal financial and operating controls, and the prevention and detection of fraud, error and non-compliance with law or regulations. We shall maintain an attitude of professional scepticism recognising that material misstatements and fraud could exist notwithstanding our past experience. However, because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control systems, there is an unavoidable risk that some material misstatements and frauds may remain undiscovered.

**Reports to management**

15. An audit is not designed to identify all significant weaknesses in the company's system of internal financial controls. However, where we consider it appropriate, we shall report to the management following our audit those significant weaknesses in the financial internal control systems or other business matters which come to our notice during the course of our normal audit work and which, in our view, require management's attention.

 Our review of internal financial control systems is only performed to the extent required to express an opinion on the company's financial statements and therefore our comments on these systems should not necessarily be regarded as a comprehensive list of all possible improvements to financial internal controls or to operational procedures, which a more extensive review might reveal. Moreover, such reports form part of a continuing dialogue between us therefore it is not intended to include every matter that comes to our attention.

 The report is in addition to, over and above our legal responsibilities as auditors and will be prepared for use exclusively within your organisation. The report may not be provided to any third party without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to any other party.

**Information published with financial statements**

16. In order to assist us with the examination of other information to be published with the financial statements, we require early sight of all documents or statements including the directors' report, chairman's statement and operating, financial and other information which is to be published with the financial statements. We will need to satisfy ourselves that the information is consistent with the audited financial statements.

 If the company intends to publish or reproduce in printed form or electronically our report together with the financial statements or otherwise make reference to our firm in a document that contains other information, the company hereby agrees to:

a) Provide us with copies of all such information to be published with the financial statements; and

b) Obtain our approval in writing for inclusion of our report before the document is finalized and distributed. Where our audit report is reproduced in any medium, the complete financial statements including notes must also be presented or a note to the effect that the information is only an extract consistent with the financial statements and that the complete set of the financial statements is available for inspection.

**Responsibility of auditors after issue of the audit report**

17. Once we have issued our report, we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that the directors will inform us of any material event thereafter, which have an effect on the financial statements.

**Reliance in the audit by third parties**

18. Our audit opinion is addressed to the shareholders of the company in their capacity as shareholders. The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

**Working papers and ownership rights**

19. The working papers and files for this engagement created by us including electronic documents and files are the sole property of the firm. Where we provide the company documentation or information during the course of our work, the ownership rights will be adhered to by the company.

20. Where we are required by legislation, or by the by-laws or professional guidelines issued by professional bodies that our partners and directors are members of and by our international affiliates to give access to our audit working papers to certain third parties for quality control reviews, we will avail the working papers to such parties without seeking the company's consent.

**Internet communication**

21. During the engagement, we may from time to time communicate with the company electronically. However, the electronic transmission of information cannot be guaranteed to be secure, error free or virus free and such information could be intercepted corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe for use. We shall not have any liability of whatsoever nature to the company arising from or in connection with electronic transfer of communication and information to the company.

**Fees**

22. Our fees are based on the time spent on the engagement, the degree of responsibility involved and the category of staff involved and charged exclusive of Value Added Tax and disbursements.

23. The fees will be subject to an annual review and will vary with a number of factors, including developments in the business. It is our practice to provide estimates of our fees in advance of the work commencing. We shall require progress payments as our work progresses. Audit fees are payable on rendering of our fee note.

We reserve the right to charge compounded service charge monthly effective from the month following the one in which the fee note is submitted. The rate of service charge will be 2% per month.

24. We shall have lien over the company's records for any unpaid fees and shall pass on to the company any costs and expenses incurred in the recovery of overdue fees and service charge.

**Indemnity**

25. The company will indemnify us and keep us fully and effectively indemnified at all times against any action against us or any costs or expenses incurred or any loss suffered by us as a result of acting for the company in good faith based on the information supplied by the company to us.

**Terms of engagement**

26. This letter supersedes any existing previous, express or inferred terms of engagement that the company had with us and shall remain effective until it is replaced or terminated. The engagement may be terminated by either party. Any termination of our appointment by the company will require a formal resolution at a validly convened shareholders meeting or resolution signed by all the shareholders.

27. If any of the terms of this engagement letter shall be found by any court or administrative body of competent jurisdiction to be invalid or unenforceable, the invalidity or enforceability of such provision shall not affect the other provisions of this letter of engagement and all provisions not affected by such invalidity or unenforceability shall remain in full force and effect. The parties hereby agree to attempt to substitute for any invalid or unenforceable provision as valid or enforceable provision, which achieves to the greatest extent possible the objectives of the invalid or unenforceable provision.

**Applicable law**

28. This engagement letter shall be governed by, and construed in accordance with the Laws of Uganda

**Arbitration**

29. The parties hereto will make every reasonable effort to settle amicably between themselves any disputes or differences arising out of this engagement. In the event of their being unable to settle such disputes or differences, they will refer this to arbitration of a person to be agreed between the parties hereto. The decision of the arbitrator will be final and binding on both parties.

**Acknowledgement, acceptance and termination**

30. The engagement will be confirmed upon signing the letter in the space provided and initialling all the pages of the letter and returning it to us.

Yours faithfully,

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**Certified Public Accountants**

**ACKNOWLEDGEMENT AND ACCEPTANCE**

We have reviewed paragraphs 1 to 30 of the engagement letter and agree to the terms and conditions therein.

For and on behalf of: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ltd.

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**Signature Signature**

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**Director's Name Director's Name**

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**Date Date**