

Uganda Retirement Benefits Regulatory Authority (Engagement of External Auditors) Guideline No. 1 of 2017



GUIDELINES ON ENGAGEMENT OF EXTERNAL AUDITORS OF RETIREMENT BENEFITS SCHEMES

TO: Retirement Benefits Schemes

These guidelines on External Auditors of retirement benefits schemes are issued pursuant to section 5 (1) (d) and 64(1) of the Uganda Retirement Benefits Regulatory Authority Act, 2011 for observance by retirement benefits schemes.

The aim of these guidelines is to ensure that the retirement benefits schemes have their financial statements prepared accurately and are free from material misstatement, whether due to fraud or error. This will create greater public confidence in the retirement benefits sector.

Accordingly, Uganda Retirement Benefits Regulatory Authority issues these guidelines on external auditors to be effective from January 1, 2017

These Guidelines are not a legal document nor do they substitute the provisions of the Uganda Retirement Benefits Regulatory Authority Act 2011 and the Regulations made thereunder. The Guidelines should be read together with the URBRA Act 2011 and the Regulations made thereunder.

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1.0 AUTHORIZATION

IN EXERCISE of the powers conferred by sections 93, 5(1) (d) and 64(1) of the Uganda Retirement Benefits Regulatory Authority Act, 2011(URBRA Act) the Uganda Retirement Benefits Regulatory Authority (herein referred to as URBRA) issues these Guidelines, for observance by all retirement benefits schemes licensed under the URBRA Act, 2011 in respect to the engagement and approval of external auditors.

2.0 INTRODUCTION

URBRA requires all retirement benefits schemes to have their audited financial statements prepared and submitted to the Authority four months after the end of each financial year in accordance with the URBRA Act, the Uganda Retirement Benefits Regulatory (Financial Reporting and Disclosure Requirements) Regulations, 2016; International Financial Reporting Standards (IFRS) and audited in accordance with the International Standards on Auditing (ISA). A qualified, independent external auditor is essential for accurate financial reporting of a retirement benefits scheme.

3.0 OBJECTIVES

The objective of these guidelines is to ensure that:

- i. Only suitable, fit and proper auditors audit retirement benefits schemes;
- ii. There is a reliable financial reporting process for both stakeholders and supervisory purposes;
- iii. There are clearly defined roles and responsibilities of trustees of retirement benefits schemes and the External Auditor in regard to the integrity of financial reporting;
- iv. With reasonable assurance, the financial statements of retirement benefits schemes are free from material misstatement, whether due to fraud or error.

4.0 GENERAL PRINCIPLES

4.1 Trustees to appoint qualified auditors

A person is regarded as being a qualified Auditor under circumstances where he or she:

- i. is a member of the Institute of Certified Public Accountants of Uganda (ICPAU)

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- ii. has been authorized by the Institute of Certified Public Accountants of Uganda to practice auditing for the relevant period;
- iii. has at least five years' experience in accounting and auditing at the level of a partner;
- iv. has at least two years' experience in retirement benefits schemes auditing at manager level in a firm; and
- v. Is not disqualified from acting as an auditor under any legislation or statutory body

4.2 Independence of auditors

- a) Trustees of a retirement benefits scheme shall ensure that the appointed auditor is independent and has no conflict of interest with respect to the retirement benefits scheme under their trusteeship.
- b) The auditor, or partners of an audit firm on an annual basis, shall be required to complete a formal independence and 'fit and proper' declarations which shall be submitted to URBRA by trustees of the retirement benefits scheme when seeking approval for the appointment of the auditor. (See Appendix for the declaration forms)
- c) Trustees of a retirement benefits scheme shall notify the Authority in writing if, at any, time it forms the opinion that its auditor is not independent or the auditor's license or that of the firm where the auditor is a partner, has been withdrawn by ICPAU.

4.3 Trustees' oversight role

Trustees of a retirement benefits scheme shall be required to carry out the following oversight functions:

- i. Oversee the preparation of the financial statements, financial reporting and disclosure processes; and agree on suitable accounting policies, to be applied consistently, making estimates and judgment on a reasonable and prudent basis.
- ii. Monitor whether the law, accounting policies and practices applicable to the retirement benefits scheme are being followed as required;
- iii. Oversee the audit process and review the auditor's plans and material findings;
- iv. Oversee the processes for hiring, removing and assessing the performance and independence of the external auditor and to ensure that the appointed

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auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit; and

- v. Investigate the circumstances relating to the resignation or removal of an external auditor, and ensure prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process.

4.4 Trustees to ensure an effective relationship with the external auditor

Trustees shall be required to safeguard and promote an effective relationship with the external auditor by ensuring that:

- i. The terms of engagement of the external auditor are clear and appropriate to the scope of the audit; estimate the resources required to conduct the audit and specify the audit fees to be paid;
- ii. The auditor undertakes a specific responsibility under the terms of engagement to perform the audit in accordance with applicable law and auditing standards;
- iii. There are adequate internal policies and a process to ensure the independence of the external auditor, including policies and processes that address the auditor's compliance with applicable ethical and professional standards, restrictions and condition for the provision of non-audit services which are subject to approval by the trustees, partner or firm periodic rotation as appropriate, and safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor;
- iv. There is adequate dialogue with the external auditor on the scope and timing of the audit to understand the issues of risk, information on the scheme's operating environment which is relevant to the audit, and any areas in which the trustees may request for specific procedures to be carried out by the external auditor, whether as a part or an extension of the audit engagement;
- v. There is unrestricted access by the external auditor to information and persons within the scheme or service providers as necessary to conduct the audit; and
- vi. There is an evaluation of the effectiveness of the external audit process at the end of the audit cycle.

4.5 Auditor's responsibility

The auditor of a retirement benefits scheme is obliged to:

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- i. Audit the financial statements of a retirement benefits scheme and report to the trustees and URBRA in accordance with the law and International Standards on Auditing (ISA);
- ii. Certify the scheme's compliance with such obligations and matters as may be specified in the URBRA Act, Regulations and Guidelines;
- iii. Provide such certifications, confirmations or any other information specified by the URBRA in a written notice sent to the scheme and the auditor; and
- iv. Carry out such other duties as may be required of the auditor under the URBRA Act, Regulations and Guidelines.

5. SPECIFIC REQUIREMENT

- i. Trustees of a scheme shall seek formal approval from URBRA for the appointment of an auditor.
- ii. Trustees of a retirement benefits scheme shall be required to disclose any information required by the URBRA regarding the auditor that they intend to engage.
- iii. If an Auditor resigns or is replaced, trustees of the scheme shall notify URBRA and give the reasons for the resignation or replacement. Such a notification needs to include a statement from trustees on whether there were any disagreements with the former auditor over the content of the auditor's opinion.
- iv. URBRA may require trustees to replace an auditor when the auditor fails to adequately perform the required functions or duties, is subject to conflict of interest or no longer meets eligibility requirements.
- v. In relying on the audit evidence generated by the scheme's actuarial function, the auditor shall be required to:
 - a. Evaluate the competence, capabilities and objectivity of the actuarial function;
 - b. Obtain an understanding of the work of the actuarial function;
 - c. Evaluate the appropriateness of the work as evidence for the assertion.

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- vi. The auditor may consider incorporating a fellow of the actuaries or equivalent as would qualify to be an actuary in Uganda in the engagement team to provide him/her with reasonable assurance that actuarial evaluation carried out on the scheme has been performed in accordance with the generally accepted actuarial principles and forms a suitable basis for deriving audit conclusions.
- vii. The scope of consultation shall, at a minimum, include:
 - a. Verifying the quantum of reserves of the scheme and benefits using the generally accepted principles; and
 - b. Verifying the funding level of the scheme both for going concern and termination bases using the International Financial Reporting Standards.

6. AUDITORS TENURE WITH A RETIREMENT BENEFITS SCHEME

Auditors tenure with a retirement benefits scheme shall be determined on the following basis;

- a. Audit partners are permitted to be responsible for the audit of a specific scheme for a period of not more than three (3) consecutive years.
- b. Audit managers are permitted to support a partner for the audit of a specific scheme for a period of not more than three (3) consecutive years;
- c. An audit firm is permitted to carry out the audit for a specific scheme for a period of up to five (5) consecutive years;
- d. A scheme may replace an auditor at any stage; and
- e. A retirement benefits scheme shall not engage the replaced audit firm before expiry of a period of at least three (3) years.

7. REPORTING REQUIREMENTS

7.1 Annual report & Audited financial statements

- (1) Trustees shall submit copies of the annual report including the audited financial statements to URBRA within four (4) months of the end of the financial year. The annual report shall include a statement, signed by the trustee indicating-

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- a. whether the retirement benefits scheme has complied with the Act, and regulations made under the Act and other relevant laws;
- b. whether the retirement benefits scheme management has –
 - i. identified the key financial and operating risks of the retirement benefits scheme
 - ii. established systems to control and monitor those risks including, where appropriate, adherence to prudent policies and procedures, to reasonable operating limits and to adequate and timely reporting processes; and
 - iii. satisfied itself that those risk management systems are operating effectively and are adequate in regard to the risks they are designed to control; and
- c. a declaration as to whether actual or potential conflicts of interest exist with respect to the retirement benefits scheme's engagement with an external auditor which may compromise the independence of the auditor's performance;

7.2 Circumstances where an Auditor may report directly to URBRA

- (1) The Auditor shall report to URBRA directly and immediately in circumstances where the scheme has breached, or is likely to breach funding requirements including where contributions to the scheme have remained due for a period exceeding thirty (30) days.
- (2) The Auditor shall report to URBRA directly where the scheme trustees may have contravened the URBRA Act or any other law and the contravention may prejudice the interests of scheme members.
- (3) Where such a report is made directly to URBRA, the auditor is not under any obligation to disclose this to the trustees of the scheme if the Auditor:
 - a) considers that by doing so the interests of scheme members may be jeopardized; or
 - b) Has lost confidence in the trustees of the retirement benefits scheme

8. PROHIBITED ACTIONS

A trustee of a retirement benefits scheme shall not –

- a. appoint or engage an auditor or audit firm without the approval of the Authority;
- b. appoint or engage the same auditor for more than five (5) consecutive years;

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- c. appoint or engage an auditor who is a member, trustee, custodian, administrator or fund manager of the retirement benefits scheme;
- d. appoint or engage an auditor to provide advisory or consulting services to a retirement benefits scheme while that same auditor is engaged for services to conduct the retirement benefits scheme's annual audit and related services, except that services related to the preparation of a retirement benefits scheme's corporate tax return are not prohibited; or
- e. lend any money or other property to the external auditor, irrespective of terms and amount; or provide other services on preferential terms to its external auditor or audit firm; or
- f. enter into any other business arrangement on preferential terms regarding an auditor while such auditor is engaged to conduct a-retirement benefits scheme's audit or related services.

9. ENFORCEMENT

When URBRA determines non-compliance with the provisions of these guidelines, it may take any intervention measures or steps prescribed in URBRA Act and regulations made thereunder.

10. EFFECTIVE DATE

The effective date of these Guidelines is the date on which they are signed.

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Appendix

CONFIRMATIONS ON INDEPENDENCE FOR ENGAGEMENT TEAM MEMBERS

This confirmation of independence and compliance with ethical requirements is provided in respect of the audit of the financial statements of the *[Scheme name]* for the *[period/year]* ended *[insert year/period end date]*.

This form should be completed at the engagement planning stage by the professional staff of the Audit firm.

To [audit firm]

Threats to independence of an auditor

URBRA considers threats to the independence of an auditor to include -

1. A **“self-interest threat”** occurs when the Firm or a member of the Engagement Team could benefit from a Financial Interest in, or other self-interest conflict with, the client.
2. A **“self-review threat”** occurs when any product or judgment of previous Engagements needs to be re-evaluated in reaching audit conclusions, or when a member of the Engagement Team was previously a trustee or officer of the client, or was an employee in a position to exert direct and significant influence over the accounts being audited.
3. An **“advocacy threat”** occurs when a Firm, or a member of the Engagement Team, promotes, or may be perceived to promote, the **client’s position or opinion to the point that objectivity may be, or could be perceived to be, compromised.**
4. A **“familiarity threat”** occurs when, by virtue of a close relationship with the client or its trustees, officers, or employees, a Firm or a member of **the Engagement Team becomes too sympathetic to the client’s interests** or to the interests of its trustees, officers or employees.
5. An **“intimidation threat”** occurs when a member of the Engagement Team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the trustees, officers or employees of the client.

Confirmation of Independence of Auditor

I confirm that I am in compliance with the applicable independence rules with respect to *[Scheme Name]* and all of its related entities and that I have read and understood the independence rules, including the rules specified below: -

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1. I or my immediate family members (spouse, spousal equivalent, and dependents) do not have a direct or material indirect financial interest in this audit client or any related entity.
2. I or my immediate family members will not offer any other services to this client or any related entity for the duration of the engagement, which **starts at the beginning of the entity's fiscal year and ends when the audit** report for the year has been signed.
3. I or my immediate family members have not served as a trustee or as an executor over any interest that has or is committed to acquire a direct or material indirect financial interest in this audit client or any related entity.
4. I or my immediate family members are not the beneficiaries of any estate or trust which has a direct financial interest in this audit client or any related entity.
5. I or my immediate family members do not have a financial interest in any entity in which the audit client or any related entity also has a financial interest with significant influence.
6. I or my immediate family members do not have any existing financial interest, loans or guarantees to or from this audit client, any related entity or any significant shareholder in the sponsor of this client, officer or trustee thereof (none of which are financial institutions).
9. I or my immediate family members do not have a material financial interest in a joint venture, closely held business investment or business relationship (or commitment to do so) with the client or any related entity or any officer, trustee or other individual who performs senior managerial functions for this client thereof.
10. I do not have a close personal relationship with a trustee, officer or any employee of the client or related entity that is in a position to exert direct and significant influence over the financial statements.
11. No close family member is a trustee, officer or is in a position to exert direct and significant influence over the financial statements of this client or any related entity, or was employed in such a role during the financial period covered by the audit report.
12. I was not employed by this client or any related entity at any point during the audit or the financial period covered by the audit report.
13. I will not entertain an offer of employment with the client or a related entity where acceptance of such an offer would result in [Firm] having to resign as auditor under external independence standards.

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14.I further confirm that, should these circumstances change during the engagement period, I will notify the audit engagement partner responsible for the audit engagement of any such changes in a timely manner.

Signed by the Audit Team which includes-

Name of engagement team member	Designation/engagement role	Signature	Date

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ENQUIRY

Enquiries on any aspect of these guidelines should be referred to;

Address:

**Director Supervision and Compliance Directorate
Uganda Retirement Benefits Regulatory Authority
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Tel. +256417304525
Email: urbra@urbra.go.ug**

Issued on the 24th day of May, 2017



Signed

**David Nyakundi Bonyi
CHIEF EXECUTIVE OFFICER**