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FINANCIAL REPORTING DILEMMAS FOR RETIREMENT BENEFIT SCHEMES: EVIDENCE FROM THE UGANDA

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ABSTRACT: *Purpose: Firstly, to determine the state of compliance by Ugandan retirement benefit schemes with the financial reporting guideline issued by the Uganda Retirement Benefits Regulatory Authority (the regulator) in June 2017. Secondly, in regard to adoption of International Financial Reporting Standard (IFRS 9 – Financial Instruments) which became effective in 2018. Thirdly, with regard to the external auditor's disclosure in the Independent Auditor's report under International Standards on Auditing (ISA 701 – Key Audit Matters) which became effective in 2016. Methodology: A sample of 50 of a population of 63 retirement benefit schemes in Uganda was selected. The sample comprised 37682 contributing members with average assets of US$ 8.35million per Scheme and annual average income of US$ 1.07million per Scheme. Audited financial statements for the years 2017 and 2018 were examined and specific quantitative data extracted. A questionnaire was also administered to the partners who signed off the opinions in the Independent Auditor's report of the sampled retirement benefit schemes. Results: There was 100% compliance in regard to some of the information guided by the regulator. This was the need to present the statement of changes in net assets, statement of net assets and statement of cash flows in the given format. 88% complied with the format for the statement of cash flows. However, the biggest challenge was on the five-year financial trend of the Scheme where only 40% complied. The other was only 50% complied with IFRS 9 – Financial Instruments (both in terms of accounting policies and disclosures). 82% of the Independent Auditors' reports disclosed Key Audit Matters. Significance of study: This study is timely for any gaps to be corrected for the financial year 2019. Whilst the regulator attempted to standardize the financial reporting, a specialized area of expected credit losses under IFRS 9 requires attention. In particular, Schemes can be provided with the assumptions to be used in their IFRS 9 model given that the economic condition in Uganda are the same for all of them. In addition, there should be a consensus on the applicability of ISA 701 for retirement benefit schemes and whether they are publicly accountable entities. Future research: A survey approach can be adopted in which a sample of members of retirement benefit schemes can participate in commenting on the good and challenges they have faced with the financial statements and the independent auditor's reports.*

KEYWORDS: retirement benefits, financial reporting, SMP, big-4

INTRODUCTION

Regulation of Retirement Benefit Schemes in Uganda

The Uganda Retirement Benefits Regulatory Authority (URBRA) of Uganda is an autonomous body established by an Act of Parliament in 2011 to regulate and supervise institutions which provide retirement benefit products and services. Its strategic objectives include among others, the need to protect pension funds, protect pension members/beneficiaries' interests by promoting transparency and accountability. URBRA licences individual Retirement Benefit Schemes (RBS) and their Trustees on an annual basis. URBRA also licences service providers to the RBS, among them, the administrators, the fund managers and custodians. Furthermore, URBRA approves external auditors for the RBS as long as those firms are duly licenced by the Institute of Certified Public Accountants of Uganda (ICPAU).

Sec 33&39 of the URBRA Act 2011 provides guideline for appointment of a custodian for the RBS. Such a custodian must be a financial institution licenced under the Uganda Financial Institutions Act, 2004. The role of the custodian is to hold the funds, assets and investments of the RBS in safe custody for the members/beneficiaries. Sec 40&46 specifies that one of the duties of Trustees role is to appoint a custodian, fund manager, administrator and actuary (where applicable). Trustees are responsible for keeping proper books of account and membership records. Sec 47&53 mentions that an administrator's role is to assist the Trustees with record keeping, accounts, benefit statements, trustee reports, and minutes of meetings among other duties. Sec 54&60 introduces the role of the fund manager as that to invest funds in line with the investment policy statement and scheme rules. The fund manager also provides advisory services to the Trustees on investments.

Majority of the retirement benefit schemes in Uganda regulated by URBRA operate under defined contribution plans. In such Schemes, the amount to be paid as retirement benefits are determined by the level of cumulative contributions to the fund (by the employee and employer) plus accumulated interest thereon. On the other hand, a defined benefit plan is where the amount to be paid as retirement benefits are determined by reference to a formula based on employee's earnings and/or years or service. Such a determination is called an actuarial valuation which should be undertaken at least once every three years.

Regulation of the external audit industry in Uganda

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy Organization (PAO) responsible for regulation and maintenance of the standards of the accountancy profession in Uganda. Whereas there are over 220 Certified Public Accountancy (CPA) firms in Uganda, only a few are approved to audit the financial statements of the RBS and their names are published on the URBRA website (www.urbra.go.ug) on an annual basis. The Trustees are responsible for preparing the financial statements of the RBS and can delegate such a function to qualified accountants who are knowledgeable about financial accounting and well versed with International Accounting Standard (*IAS 26 – Accounting and Reporting by Retirement Benefit Plans*). Sec 64 of the URBRA Act 2011 notes that the auditor must be approved by URBRA before they embark on their assignments.

Scope of the study

The Trustees of any Scheme are required (under Sec 66 of the URBRA Act, 2011) to submit an Annual Report to URBRA within four months following the end of the accounting year. The Annual Report is expected to contain information as prescribed in the URBRA Guidelines but also include the audited financial statements for the preceding year. The reasons URBRA published and disseminated the Guidelines No.2 in June 2017 were to provide the Schemes with a template for preparing the Annual Report required under the URBRA Act and also to prescribe minimum information that must be in the Annual Report. The study covered only the Ugandan Schemes licensed by URBRA. The data was extracted from Annual Reports submitted by those Schemes to URBRA for the accounting years 2017 and 2018.

Statement of the problem

There has been a concern among stakeholders that financial reporting among the regulated retirement benefit Schemes in Uganda is not similar making it difficult for readers to compare and contrast their governance, membership, financial performance and financial health. In this study, the centre of attention is on the following guideline and standards that underpin part of the financial reporting for these Schemes:

i. The Uganda Retirement Benefits Regulatory Authority (URBRA) issued Guideline No.2 regarding the preparation of Annual Reports. This guideline became effective on 1 June 2017;
ii. The International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA 701) – *Communicating Key Audit Matters in the Independent Auditor's Report*. This Standard became effective for financial periods beginning on or after 15 December 2016; and
iii. The International Financial Reporting Standard (*IFRS 9: Financial Instruments*) became mandatory for financial periods beginning on or after 1 January 2018.

Research objectives
To determine the extent to which the retirement benefit Schemes in Uganda are compliant with the URBRA Guideline No.2, the ISA 701 and IFRS 9 reporting in as far as their financial statements for 2017 and 2018 were concerned.

Justification for this study
Retirement Benefit Schemes in Uganda are increasing both in numbers and the Assets under Management (AuM). It was deemed important to determine the state of financial reporting so as to prescribe solutions to address any significant gaps. Beneficiaries of this study will include URBRA (the regulator), the Trustees and the professional accountants regulated by ICPAU (both preparers and external auditors).

LITERATURE REVIEW/THEORETICAL UNDERPINNING

Standardization of financial reporting helps ensure comparability which leads to more informed decision marking. In terms of firms looking for mergers and acquisitions (M&A), the probability of impairment of goodwill post M&A is minimized (Barth, 2015; Chen, Collins, Kravet, & Mergenthaler, 2018; Osadchy et al., 2018). In addition, the frustration with the M&A is also reduced and thus curbing the dilemma of whether to resell just immediately thereafter. Therefore, the design of regulatory guidelines and the broader financial reporting standards is to help owners, board/trustees, management and other stakeholders to be compare two or more firms in the same industry.

The level of compliance with regulatory guidelines and financial reporting standards can be a proxy for financial statement and audit quality (Gaynor, Kelton, Mercer, & Yohn, 2016). The preparers of the financial statements of the retirement benefit schemes ought to be knowledgeable about the regulatory guidelines and financial reporting standards. In the case of Ugandan retirement benefit schemes, the preparation could be outsourced to a unit within the Administrator firm. They appear best positioned to prepare the accounts since they possess records of each employee, the monthly contributions, the bank statements and much more information. Accounting expertise is required to prepare high quality and IFRS-compliant financial statements (Chychyla, Leone, & Minutti-Meza, 2019; Otete, 2015; Romanus & Arowoshegbe, 2014). The external audit firm is expected to check that the financial statement complies with regulatory guidelines and financial reporting standards, plus ensure their own independent auditor's report complies with the international standards on auditing. However, the information contained in the financial statements may become too complex for readers, hence some preparers had resorted to voluntary disclosures (Guay, Samuels, & Taylor, 2016). These are disclosures over and above the minimum requirements and not compulsory (Glaum, Keller, & Street, 2018)

Audit regulation was tightened from the year 2002 following the sudden demise of Arthur Andersen which was the external auditor for Enron. Whilst progress has been registered in the past two decades, questions about the quality of audits continue to linger (Comprix & Huang, 2015; Kaawaase, Assad, Kitindi, & Nkundabanyanga, 2016; Kasigwa, Munene, Ntayi, & Nkote, 2013; Knechel, 2016; Stephen, 2017; White, 2018). Part of the debate stems from the fact that different stakeholders have different interpretations on constitutes audit quality. One school of thought posits that competence leads to high audit quality but such an attribute may or may not be seen by simply reading a set of financial statements. The other school portends that independence of the audit firm ensure objectivity and thus audit quality (Knechel, 2016; Stephen, 2017). One way of solving the impasse between academia (the teaching of accounting) and the practice of accounting is to constitute research teams to have both academics and practitioners (Barth, 2015; Gaynor et al., 2016; Otete, 2015; Yapa, 2000). In terms of companies listed in the on the bourse in the United States, the deficiencies cited by the Public Company Accounting Oversight Board (PCAOB) in the audit engagement can provide a clue on the quality of the audit (Christensen, Glover, Omer, & Shelley, 2016). These deficiencies are contained in the PCAOB reports that can be downloaded from the internet (www.pcaobus.org). Nonetheless, all Ugandan accounting firms undergo cyclical quality assurance reviews by the Institute of Certified Public Accountants of Uganda (ICPAU) although any deficiencies noted are not necessarily made public.

Regulator guidelines affect the asset allocation of defined benefit schemes, as opposed to the characteristics of the individual pension fund scheme (Boon, Briere, & Rigot, 2018). Therefore, regulatory guidelines and financial reporting standards create an area of intersection for all players. Whilst the regulator is more interested in conformance, the industry firms can use this regulations for comparability and benchmarking (Chen et al., 2018; Siudek & Zawojska, 2014; Su, Linderman, Schroeder, & Van De Ven, 2014).

Audit quality had from time memorial challenged minds of stakeholders. These complaints lead to the changes in the independent auditor's report by the International Auditing and Assurance Standard Board (IAASB) in 2016 through a new International Standard on Auditing (ISA 701). One of the changes was the introduction of a paragraph/section on Key Audit Matters (KAM) which was extensively debated through comment letters worldwide (Barth, 2015; Cordoş & Fülöp, 2015; Köhler, Ratzinger-Sakel, & Theis, 2016; Sirois, Bédard, & Bera, 2018). Initially, the KAMs were targeted at companies listed on the stock exchange since the broader public needed to be assured about the depth and breadth of the auditor's work and the key matters. However, the phrase is Public Interest Company and not necessarily public listed company. The private owned companies were exempted from the rigours of KAMs on account of cost-benefit analysis (Bédard, Gonthier-Besacier, & Schatt, 2014). The responsibility to comply with ISA 701 rests with each firm and their internal quality assurance framework under the International Standard for Quality Control (ISQC1). The ICPAU also checks for ISA compliance during its routine firm inspections. Accounting firms need to recruit professional staff that are conversant with ISAs to demonstrate competence and independence (Kaawaase et al., 2016; Otete, 2018d, 2018c; Stephen, 2017). In addition to ISA compliance, the external audit partner has to express an opinion on whether the financial statements comply with IFRS, laws and regulations. This ensures that the accounting firm remains competitive, higher regulator quality assurance rating and more premium fees earned due to higher competence (K. Sejjaaka & K. Kaawaase, 2014; Otete, 2016, 2018b)

Gaps in literature

Prior studies have attempted to assess the level of compliance with IFRS in general. Whilst such an approach is beneficial in terms of a holistic view, it does not identify unique features that affect the adoption of specific standards or guidelines. Secondly, areas of research that affect majority of the Small and Medium-sized Practices (SMPs) in Uganda and other parts of the world are limited. In the case of Uganda, the SMPs audit over 80% of the financial statements of retirement benefit schemes.

METHODOLOGY

There were 63 licenced Retirement Benefit Schemes in Uganda as per the list published on the URBRA website (www.urbra.go.ug) as at January 2019. That statutory deadline for submission of audited financial statements to URBRA is four months after the accounting year end for the particular retirement benefit Scheme. URBRA has allowed the retirement benefit Schemes of Government agencies to have an accounting year end of 30 June while the private sector Schemes use 31 December.

Given the number of 63, the study could have easily been a census of all the Schemes. However, URBRA explained that some stand-alone organizational Schemes had joined umbrella Schemes during the year 2018 while others had sought extension to submit their 2018 financial statements after the statutory deadline and one of them was less than one year in existence. Eventually, a sample of 50 RBS were used for data analysis. This comprised 43 stand-alone organizational schemes and 7 Umbrella Schemes. The National Social Security Fund (NSSF) that was established in 1985 was excluded from the data analysis as it was a distant outlier; membership and contributions are compulsory as per the NSSF Act 1985 and its financial performance is too large compared to the other voluntary schemes. NSSF had over 2.5million members yet the next largest RBS had less than 5000 members.

The partners who signed off the audit report were requested to answer six open-ended questions (see **Appendix 2** – Questionnaire) regarding the three elements of this study. There were 20 different CPA firms that audited the sampled retirement benefit schemes.

RESULTS/FINDINGS

Descriptive statistics: Majority of the RBS were less than 20 years in existence.

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Age of the Scheme (n = 50)

	Number
< 3 years	0
3-5 years	12
6-10 years	13
11-20 years	18
21-30 years	4
31-40 years	0
41-50 years	2
> 50 years	1

Service providers

This data is based on what was published in the financial statements of the Schemes. A total of seven (7) fund managers participated in the 50 sampled Schemes. The number for custodians was four (4), that for administrators was seven (7) and the external auditors were 16. Five of the Schemes used in-house expertise from the employer side to handle fund administration and all the five were Government entities. In terms of the external auditors, 13 out of the 16 were Small and Medium-sized Practices (SMPs) while three schemes utilized the services of a Big-4 accounting firm.

Summary statistics of the Schemes (n = 50)

		Minimum	Maximum
Total number of members	37682		
Average per Scheme	**754**	**2**	**4395**
Total assets – 2018[1]	UGX 1,536 billion		
Average per Scheme	**UGX 31 billion**	**UGX 21 million**	**UGX 420 billion**
Total income – 2018[2]	UGX 168 billion		
Average per Scheme	**UGX 4 billion**	**UGX 4 million**	**UGX 43 billion**

[1]Exchange rate for end of 2018: USD = UGX 3713
[2]Average exchange rate for year 2018: USD = UGX 3727 (Source: Bank of Uganda)

DISCUSSION

The Uganda Retirement Benefits Regulatory Authority (URBRA) issued Guideline No.2 regarding the preparation of Annual Reports. This guideline became effective on 1 June 2017

According to that guideline, the financial statements of a Scheme shall include:

- Statement of changes in net assets (*S_CNA*) outlining the revenue and expenditure for the period;
- Statement of net assets (*S_NA*): the total assets, the total liabilities and the net assets available for the payment of benefits at the end of the period;
- Statement of changes in members funds (*S_CMF*);
- Statement of cash flow (*S_CF*); and
- Five-year financial development of the Scheme (*F_DS*).

A summary of the significant accounting policies adopted by the Trustees for the scheme; and the notes to the financial statements setting out other details as required by the guideline (as expounded in **Appendix 1)** and applicable International Financial Reporting Standards (IFRS). The financial statements must be written in English and the reporting currency must be the Uganda shilling (UGX). In addition, the financial statements must be audited by an independent firm that is licenced by ICPAU, but approved by UBRBA.

Compliance statistics of the Schemes (n = 50)

	Number complied	**% complied**
Statement of changes in net assets	50	100%
Statement of net assets	50	100%
Statement of changes in member funds	44	88%
Statement of cashflows	50	100%

Statement of changes in net assets (*S_CNA*): All the RBS complied with this requirement. The S_CNA provides information on the contributions received/receivable from employer and the employees less the withdrawals paid/payable. Virtually all the RBS had a positive net dealing with members which is a sign of going concern of the Scheme. This statement was important for members to observe the efficiency with which the money was invested (income vis-à-vis the expenses). The statement provided information on areas of volatility like the net changes in fair value of equity investments, losses/gains on disposal of equities and also the losses/gains on foreign exchange due to the volatility in currency markets in East Africa.

Statement of net assets (*S_NA*): All the RBS complied with this requirement. The S_NA showed the assets and liabilities of the Scheme and the going concern assumption is that it will have a positive net asset position. Most of the RBS had Government securities (treasury bills and bonds) as the dominant asset; 70-80% of the total assets. This was followed by equity investments which comprised 15-25% of the total assets. The study observed that most RBS provided their readers with a detailed note on these investments showing the opening balance, the purchases during the year, the maturities or disposals, the accrued interest, fair value changes and the closing balances. The liabilities of the RBS were mainly income tax payable, deferred tax and other accruals, which range between 2-4% of the total assets.

Statement of changes in members funds (S_CMF): Majority (88%) of the RBS complied with this requirement. The study observed that the other 12% showed the same information as one of the notes to the financial statements. The S_CMF shows the accumulated members' fund at beginning of the year, the net dealing with members during the year, the total interest declared and the accumulated members' fund at end of the year. It also shows the amount retained into a reserve account, if any. This statement enables members to monitor the interest declared vis-à-vis the performance reflected in the *S_CNA.*

Statement of cash flows (*S_CF*): All the RBS complied with this requirement. The S_CF showed the cash flows from operating activities, those from investing activities (purchases and disposals of investments) and those from financing activities (contributions by employer and employees less withdrawals by exiting members). The high level of compliance is not surprising given that *IAS 7 –*

Statement of Cash Flows has been in use since 1994.

Five-year financial development of the Scheme (F_DS):
Compliance statistics of the Schemes (n = 50)

None	2-yrs	3-yrs	4-yrs	5-yrs
11	12	5	2	20
22%	24%	10%	4%	40%

The rationale for the 5-year financial development was to enable a reader to evaluate the performance of the Scheme over a longer period of time. Historical financial statements typically show only the current year and comparative for the previous year. The study revealed that 40% of the Schemes complied with this guideline. 22% did not provide the 5-year trend altogether. There were 7 Schemes that could not provide a 5-year trend because they had been in operation for less than five years.

Qualitative comments:

- There was a view that the URBRA Guideline did not cater for Umbrella Schemes. Consequently, each Umbrella scheme decided on their own on how to report. The main area of differences lay with the disclosure of the information pertaining to the members of the Umbrella. Some disclosed the list while others attempted to display a mini Statement of Net Assets for each participating organization. The recommendation was that URBRA should develop a specific Guideline for Umbrella Schemes due to their unique nature;

- Another common view was that the URBRA Guideline was not cross-referenced to the IFRS, hence some Schemes were not compelled to follow that guideline. The recommendation was that URBRA Guideline should focus only on areas that are meant to supplement the IFRS; and

- Another theme was that complying with the Guideline fully would be cumbersome. For example, showing the composition of the Board of Trustees committees and the frequency of meetings. Another example was the five-year financial development of the Scheme and a vast range of ratios. In addition, the guideline to provide details of investments by major class had led to different interpretations. Some Schemes listed each and every treasury bill and bond individually (including reference number, date of purchase and coupon rate) while others simply lumped all treasury bills and bonds and disclosed as one figure in the notes and in the statement of net assets. Furthermore, showing maturity analysis for some items of the net assets yet there is a maturity risk profile is a duplication.

The International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA 701) – *Communicating Key Audit Matters in the Independent Auditor's Report*. This Standard became effective for financial periods beginning on or after 15 December 2016

Compliance statistics of the Schemes (n = 50)

	Number complied	% complied
Key Audit Matters – ISA 701	41	82%

The majority (82%) of the RBS complied with this requirement. Key audit matters are those matters that, in their (the CPA firm's) professional judgment, are of most significance in the audit of the financial statements of the current period. A number of firms (18% of them) determined that there were no key audit matters to communicate in their reports. The main role of IAASB is to develop the International Standards on Auditing (ISAs) which guide the provision of independent auditing and assurance profession. A new standard was developed. ISA 701 – Communicating Key Audit Matters in the Independent Auditor's Report. The IAASB had been working hard to enhance the value that investors and users of financial statements derive from reading the Independent Auditor's Report and one of such improvements was ISA 701 – Communicating Key Audit Matters in the Independent Auditor's Report.

The Institute of Certified Public Accountants of Uganda (ICPAU) provided its practitioners with some guidance on KAMs in October 2016 – *PS1/16: Forming an Opinion and Reporting on Financial Statements*. It guided that, for audits of financial statements of publicly accountable entities, the auditor shall communicate KAMs in the auditor's report. What is a publicly accountable entity? A publicly accountable entity is one that hold assets in a fiduciary capacity for a broad group of outsiders and pension and retirement benefit schemes were listed among these entities under Section 3.0 b(vi). With regard to pension and retirement benefit schemes in Uganda, the Trustees hold the assets in a fiduciary capacity for a broad group of outsiders who are typically the employees of the organization and come from different parts of the backgrounds and spread across different departments in the organization.

Consequently, there was a gap in the 18% of the audit reports that stated that there were no KAMs. Typically, the KAMs mentioned by the majority were in respect of the significant time and effort that was put on auditing the Government paper and also the investment in listed equities. This was to minimize the audit risk on revenues and assets which could be prone to overstatement given that the Fund manager is remunerated based on the Assets under Management (AuM). The Trustees performance and retention in office could also be hinged on positive movement in income and asset values.

Qualitative comments:

- There was a view those charged with Governance had abdicated their roles and left it to other service providers, especially the Administrator. The audit firms often did not get sufficient discussion time with the Trustees and yet the KAMs are very relevant to them. The recommendation was that Trustees should pay attention and challenge the auditors regarding the KAMs; and

- Another view was that KAMs did not make sense to the readers and preferred the management letter instead. Therefore, raising KAMs without a management letter posed a problem for the auditors at the Annual General Meeting.

The International Financial Reporting Standard (*IFRS 9: Financial Instruments*) became mandatory for financial periods beginning on or after 1 January 2018.

Compliance statistics of the Schemes (n = 50)

	Number complied	**% complied**
Financial Instruments – IFRS 9*	25	50%

*11 out of the 50 could not comply as these are Government schemes whose year-end was 30 June 2018 and IFRS 9 had not yet become compulsory for such schemes.

Exactly one half **(50%)** of the RBS complied with this requirement. The bulk of the financial instruments of Schemes that fall under the ambit of IFRS 9 were the treasury bills, treasury bonds, corporate bonds and fixed deposits. There was no disclosure in the accounting policies on whether the 50% of the Schemes that did not adopt IFRS 9 opted to retain the repealed International Accounting Standard (IAS 39). In addition, there was no mention in the auditor's report on the non-compliance with the IFRS 9.

Nonetheless, evidence from Schemes that reported IFRS 9 revealed that the financial implications were not significant with expected credit losses often less than 0.1% of the value of the financial instruments as at 31 December 2018. Probably, the non-inclusion of IFRS 9 was based on cost-benefit analysis but one could not discern the possible causes from the financial statements.

Qualitative comments:

- There was a view that since most Schemes had one Custodian and one Fund Manager, then computation of Expected Credit Losses under IFRS 9 was not realistic;

- Another view was that URBRA had not provided guidelines to the Schemes regarding IFRS 9. This was in contrast to the Bank of Uganda which was at the forefront and challenging its regulated institutions to submit their IFRS 9 models for review. The recommendation was that URBRA provides IFRS 9 guidelines to its regulated Schemes; and

- IFRS 9 is an accounting matter but Trustees expected the auditors to compute the impairment within the same audit fee. The recommendation was that URBRA and ICPAU partner and train the Trustees on IFRS 9 and ask all Schemes to submit an annual return on IFRS 9 impairment.

IMPLICATIONS TO RESEARCH AND PRACTICE

84% of the CPA firms that audited the financial statements of the Schemes were Small and Medium-sized Practices (SMPs) while the balance was by the Big-4. This means that the SMPs have an opportunity to dominate this practice areas as a niche. That said, the main implication for research is that the accountancy profession needs to be improved continuously through publications like this one. The more the gaps are highlighted, the more they are corrected by all firms simultaneously. It is important to note that the preparers of the financial statements should also ensure compliance with IFRS and do not be complacent that only practicing accountants (the CPA firms) are obliged to follow and apply IFRS. On the part of the practicing accountants (especially the SMPs), IFAC is considering a paper on how the International Standards on Auditing (ISAs) could be made less onerous while auditing less complex entities. In meantime, the CPA firms must comply with the ISA 701 and show key audit matters in their audit report on the financial statements of retirement benefit schemes.

CONCLUSION

The URBRA Guideline No.2 regarding the preparation of Annual Reports is generally being followed by the Schemes. The preparers and auditors should ensure consistency are report the 5-

year financial trend of the Scheme so that members can appreciate the patient nature of pension investments. All other recommended disclosures can also be adopted to bolster the information for the readers of the financial statements. *IAS 26 – Accounting and Reporting by Retirement Benefit Plans* remains the substantial standard for financial reporting and by and large, the URBRA Guideline adopted most of the requirements of IAS 26.

The International Standard on Auditing (ISA 701) – *Communicating Key Audit Matters in the Independent Auditor's Report* requires further adoption with emphasis on the work that was done to assure members about the listed equities. Due to their volatility, members often become anxious as to whether their pensions are safe and growing owing to the huge impact of fair value adjustments from one year to another.

The International Financial Reporting Standard (*IFRS 9: Financial Instruments*) is relatively complex and some preparers and auditors need further training. A generic accounting policy for retirement benefit schemes in Uganda can be developed by URBRA (in liaison with ICPAU) and adopted by all Schemes. For example, 70-80% of the financial instruments are Government of Uganda treasury bills and bonds. The IFRS 9 model for probability of default (PD) and loss given default (LGD) for Government of Uganda would exactly be the same.

FUTURE RESEARCH

The International Financial Reporting Standards are developed for public interest. Therefore, future research must include the public among the respondents. A survey approach can be adopted in which a sample of members of retirement benefit schemes can participate in commenting on the good and challenges they face with the financial statements and the auditor's reports.

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APPRECIATION

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APPENDIX 1 – Extract from URBRA Guideline No.2, paragraph 4.0

The financial statements of a Scheme shall include:

i. Statement of changes in net assets outlining the revenue and expenditure for the period;
ii. Statement of net assets so as to be able to determine the total assets, the total liabilities and the net assets available for the payment of benefits at the end of the period;
iii. Statement of cash flow;
iv. Statement of changes in members funds;

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v. A summary of the significant accounting policies adopted by the Trustees for the Scheme; and

vi. Notes to the financial statements setting out other details as required by these Guidelines and applicable International Financial Reporting Standards.

The financial statements shall be in English and Reporting currency shall be Uganda shillings.
The financial statements shall be audited by an auditor authorised by the Institute of Certified Public Accountants of Uganda, appointed by the trustee and approved by the Authority;

The notes to the financial statements shall disclose:

i. the value of each investment held at year end;
ii. the change in fair value attributable to each investment;
iii. the methods adopted for determining the value of each class of investments;
iv. the dates of the last independent valuations of property investment together with the names and qualification of the valuers;
v. details of investment in the Employer (if any)
vi. investment expenses of the fund manager, including all fees, brokerage and commissions;
vii. the individual remuneration paid to each trustee;
viii. details of any trustee related entities;
ix. details of any related party transactions with the trustee including the amounts involved;
x. details of income tax payable, deferred tax liabilities and benefits;
xi. details of contingent liabilities and capital commitments;
xii. details of any significant events occurring after the balance date;
xiii. details of financial instruments and exposures in respect thereto;
xiv. depreciation of property, plant and equipment other than investment property;
xv. details of investments that exceed 5% of net assets available for benefits;
xvi. the annual return on funds employed and the annual crediting rate;
xvii. details of the changes in members' funds disclosing:

a. how the changes in net assets have been apportioned to members' accrued benefits and reserves;
b. interest credited or provided for crediting to members; details of contributions not yet allocated to members' accounts;
c. details of other funds not yet allocated to members' accounts; and
d. other changes in members' funds details which are to be provided;

xviii. in respect of any unallocated members' funds, the circumstances leading to the unallocated amount;
xix. the balances of any reserve accounts and precise description of the reason for each such account;
xx. a summary of the benefit payments by class of benefit;

Other relevant disclosures shall also disclose:

i. the remuneration paid to the auditor for auditing the financial statements and for any other services;

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ii. in case of a defined retirement benefits scheme, details of the last actuarial report in respect of members' benefits setting out:

a. the date of the report;
b. the name and qualifications of the actuary;
c. a description of the significant actuarial assumptions;
d. the method used to calculate the actuarial present value of the liabilities;
e. any comments by the actuary in respect of the estimated surplus or
f. deficit in assets compared with the liability for members' benefits; and
g. the actuary's recommendation of the level of future contributions.

APPENDIX 2 – Questionnaire for CPA firm partners

1. What challenges has your firm faced in adopting the URBRA, Guideline No.2 which provides a template for the Annual Report for retirement benefit schemes in Uganda?
2. What do you suggest should be done to improve the guideline?
3. What challenges has your firm faced in ISA 701 – Communicating Key Audit Matters in the Independent Auditor’s Report for retirement benefit schemes in Uganda?
4. What do you suggest should be done to reduce the challenges?
5. What challenges has your firm faced while auditing financial instruments of retirement benefit schemes in Uganda with respect to IFRS 9?
6. What do you suggest should be done to reduce the challenges?