INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

PRACTICE STATEMENT: ISA FOR LESS COMPLEX ENTITIES (LCEs)

APRIL 2024

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266. This has now been repealed and replaced bythe Accountants Act, 2013.

The functions of the Institute as prescribed by the Act are to regulate and maintainthe Standard of Accountancy in Uganda and to prescribe and regulate the conduct of accountants and practising accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

Vision

A globally recognized promoter of accountants for sustainable economies.

Mission

To develop and regulate accountants for professional excellence and sustainable impact.

Core Values

1) Professional Excellence
2) Accountability
3) Integrity
4) Responsiveness

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) andthe Pan African Federation of Accountants (PAFA).

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1.0 INTRODUCTION

1.1 Regulation of Accountancy Practice in Uganda

The Institute of Certified Public Accountants of Uganda (ICPAU) was established by an Act of Parliament in 1992 now the Accountants Act, 2013. The functions of the Institute, as prescribed by the Act, are:

i) To regulate and maintain the standard of accountancy in Uganda.
ii) To prescribe and regulate the conduct of accountants and practicing accountants in Uganda.

1.2 Setting and Maintaining Professional Standards

In execution of its statutory obligation, the Institute adopted the International Standards on Auditing (ISA) and other related standards issued by the International Auditing and Assurance Standards Board (IAASB) for application in Uganda in 1999.

Section 12 of the Accountants Act, among others, empowers the Council of the Institute:

a) To ensure the maintenance of professional standards by the members of the Institute and to take steps to acquaint the members with methods and practices necessary to maintain those standards.
b) To issue and adopt internationally accepted accounting and auditing standards and promote their usage in Uganda and to make suitable adaptation where necessary.

This practice statement aims to clarify and promote consistency of application of the requirements of the ISA for Less Complex Entities (LCEs).

1.3 Interpretation

For this Practice Statement, unless the context otherwise requires-

a) Accounting firm or firm means a sole proprietorship or partnership of qualified practicing accountants licensed under the Accountants Act 2013.
b) Auditor means a person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or as applicable the firm.
c) Engagement partner means the partner or other person in the firm who is responsible for the engagement and its performance, for the report that is issued on behalf of the firm, and who holds a Certificate of Practice issued by the Institute of Certified Public Accountants of Uganda.

2.0 THE ISA FOR LESS COMPLEX ENTITIES (ISA FOR LCEs)

The International Standard on Auditing for Financial Statements of Less Complex Entities (the ISA for LCEs) is a pioneering standalone global auditing standard designed specifically to address the unique needs of audits of smaller and less complex businesses. The standard recognizes the importance of smaller businesses and their specific audit needs and aims to provide the same level of reasonable assurance as audits performed under the ISAs. The standard has been designed to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, for audits of financial statements of Less Complex Entities (LCEs).

The standard is written in the context of an audit of a complete set of general-purpose financial statements of an LCE. It may also be adopted in the circumstances of the engagement to an audit of a complete set of special purpose financial statements or an audit of a single financial statement or a specific element, account, or item of a financial statement, only if the entity is an LCE.

The standard does not override local law or regulation that governs audits of financial statements in a particular jurisdiction as it does not address the responsibilities of auditors that may exist in legislation or regulation.

2.1 Why the ISA for LCEs

In the world of auditing, businesses are not the same and neither are their audits. While the complex structures and transactions are best addressed by the ISAs, the complexity in the ISAs has always been challenging for audits of less complex entities. The ISA for LCEs is a special standard that contains less rigorous requirements that are best suited for the Less Complex Entities (LCEs).

In Uganda, Micro Small, and Medium Enterprises (MSMEs)/ Small and Medium Enterprises (SMEs) are estimated to account for approximately 90% of the private sector and contribute about 75% of the Gross Domestic Product (GDP)[1]. Therefore, the contribution of the MSMEs/ SMEs cannot be underestimated. It's the audits of financial statements for such entities for which the ISA for LCEs is best suited.

[1] Ministry of Trade, Industry and Cooperatives (2015). Uganda Micro, Small and Medium Enterprise (MSME) Policy

2.2 What are Less Complex Entities (LCEs)

While the ISA for LCE does not provide a straightforward definition of less complex entities, it provides some qualitative and quantitative characteristics of entities that could be classified as such. LCEs are generally entities whose:

a) Organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g. 5 individuals or less).
b) Business activities, business models, or business industries do not give rise to significant pervasive business risks.
c) Ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.
d) Structure includes a centralized finance function, including centralized activities related to financial reporting. There are few employees involved in financial reporting roles (e.g. 5 individuals or less).
e) IT environment, including its IT applications and IT processes is straightforward. Such entities require few formalized IT controls.
f) Financial statements ordinarily do not include accounting estimates that involve the use of complex methods, models, assumptions or data.

The ISA for LCE may also be used for audits of financial statements of simple groups:

a) That have few entities or business units (e.g. 5 or less). The entities or business units in such groups tend to operate in jurisdictions with similar characteristics.
b) With simple consolidation processes. Such groups have:
   - Simple intercompany or other consolidation adjustments;
   - Entities or business units whose financial information is prepared following similar accounting policies applied to the group financial statements; and
   - Entities or business units that have the same financial reporting period- end as that used for group financial reporting.

3.0 USE OF THE STANDARD

The International Auditing and Assurance Standards Board (IAASB) limits the use of the ISA for LCEs to entities whose business activities, organizational and ownership structures as well as accounting and financial reporting are relatively simple and straightforward.

Extract from the Standard

A.1 The ISA for LCE shall not be used if:

a) Law or regulation prohibits the use of the ISA for LCEs or specifies the use of auditing standards other than the ISA for LCEs for the audit of the financial statements in that jurisdiction.

b) The entity is a listed entity.
c) The entity falls into one of the following classes:
  i) An entity one of whose functions is to take deposits from the public;
  ii) An entity one of whose main functions is to provide insurance to the public; or
  iii) A class of entities where the use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.

d) The audit is an audit of group financial statements (group audit) and:
  i) Any of the group's individual entities or business units meet the criteria as described in (b) or (c); or
  ii) Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g. attending a physical inventory count or physically inspecting assets or documents

Requirement:

The ISA for LCEs may generally be used for audits of financial statements of all entities except those designated as public interest entities.

Under the ICPAU Guidelines for Implementation of the IFRS for SMEs, the Council of ICPAU designated the following as public interest entities/ publicly accountable entities:

a) An entity whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or is in the process of issuing such instruments for trading in a public market; or
b) An entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for;
  - *Financial institutions[2] and micro-finance deposit-taking institutions;*
  - *An entity that carries on insurance business under an insurance contract whether as an Insurer or re-insurer;*
  - *Retirement Benefits Schemes;*
  - *SACCOs[3]; or*

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[2] Financial institution means a company licensed to carry on or conduct financial institutions business in Uganda and includes a commercial bank, merchant bank, mortgage bank, post office savings bank, credit institution, a building society, an acceptance house, a discount house or any institution classified as a financial institution by the Central Bank.

[3] A SACCO referred to in this definition is one that meets at least two of the following criteria:

a) Voluntary savings of three billion (3,000,000,000) Uganda shillings and above; or
b) Institutional capital of one billion (1,000,000,000) Uganda shillings and above
c) Membership of 500 people and above

c) A large company[4]; or

d) A payment system Operator; or

e) A capital market infrastructure provider ((namely; approved and or licensed entity); or

f) A public organization, in which the State owns the whole or part of the proprietary interest or which is otherwise controlled directly or indirectly by the State, including parastatals, state enterprises, commissions,and authorities; or

g) A private entity in which the State has an equity interest; or

h) An entity, that borrows funds that are guaranteed by the Government of Uganda.

i) The term ‘entity’ has been used to refer to a corporation, estate, trust, association,limited liability company, joint venture, or similar organization duly registered andor incorporated or both under any law in force in Uganda.

4.0 EFFECTIVE DATE

The ISA for LCEs is effective for audits of financial statements of LCEs for periods beginning on or after December 15, 2025. This Practice Statement shall become effective on the same date. Early adoption and application of the ISA for LCEs is permitted and encouraged by the Council.

[4] A large company means an organization limited by guarantee or shares as defined under S.4 of the Companies Act, 2012, and which on its balance sheet date exceeds the limits of two of the following criteria:

- balance sheet total –one hundred billion (100,000,000,000) Uganda Shillings;
- turnover –fifty billion (50,000,000,000) Uganda Shillings;
- average number of 500 employees during the accounting period.