

## Audit risks for digital assets in Uganda

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### Abstract

This paper explores the emerging audit risks posed by digital assets in Uganda, where cryptocurrencies and blockchain-based tools are gaining visibility despite lacking clear regulatory recognition. While these innovations promise benefits such as financial inclusion and efficient remittances, they also introduce significant challenges for auditors. Key risks include verifying ownership and control of assets held in anonymous wallets, coping with the extreme volatility of valuation, assessing the reliability of smart contracts, and managing high transaction volumes that overwhelm traditional audit procedures. The absence of legal tender status and fragmented regulatory oversight further complicates auditors' ability to provide accurate and reliable financial reporting. These gaps heighten the potential for fraud, misstatements, and money laundering, creating liability risks for auditors navigating an uncertain legal environment. The study highlights the urgent need for capacity-building among Ugandan auditors, adoption of blockchain-specific audit tools, and the development of clear regulatory frameworks. Strengthening oversight, training, and technology adoption will be critical in ensuring that digital assets contribute to innovation without undermining financial reporting integrity.

**Keywords:** Digital Assets; Audit Risks; Cryptocurrencies; Blockchain Auditing; Regulatory Frameworks

### 1. Introduction

In Uganda, the rise of digital assets such as cryptocurrencies and blockchain-based tools is quickly capturing public attention. While these digital innovations hold significant promise, particularly in enhancing financial inclusion and transforming remittance channels, they also present complex and substantial audit and regulatory risks. The swift growth of the digital asset market has seen regulators struggling to keep up with the game, and to auditors, the new territory is a challenge in itself. Still on the ownership side verification to valuation, the Ugandan auditors are faced with the continual changing landscape whereby the traditional financial principles fail mostly to keep up with changing technology. Digital assets thus are both stories of uncertainty and danger. Since the government is still confronted with the challenge of the lack of legalization of cryptocurrencies and other digital assets as legal tender, the task of auditors to ensure the validity and reliability of financial statements would be challenging. The lack of regulation also makes the work of auditors more complicated because Uganda strives to incorporate digital assets into the financial system in general. To stay effective amid this technological scuffle, auditors of Uganda are required to simply be aware of the very complexity of digital assets and make their way through an uncertain legal landscape equally. This paper addresses the most prominent audit risks that show the presence of digital assets in Uganda, the current regulatory environment factors, as well as the necessity of advanced attention to preventing the new risks and strengthening the awareness of the population and professionals.

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## 2. What Counts as “Digital Assets”?

Various tools are all digital assets, yet particularly notable are cryptocurrencies including Bitcoin, Ethereum, and stablecoins. These assets rely on blockchain technology, and their value derives not only through the trust in the network and its users, but through the physical or central legal authority nonexistent. Cryptocurrencies are not regarded as legal tender in Uganda, however. They cannot be regulated or even licensed by the government, and that is a big loophole in terms of consumer protection and regulation. Such a form of absence of formal regulation creates one more level of troubles of auditors who also have to evaluate the digital assets without providing clear-cut guidance of the regulatory authorities. The lack of regulatory transparency implies that crypto and blockchain-related tools are seen as a talk speculative investment rather than a steady investment. The classification will result in inconsistent reporting and confusion that translates to compromised integrity of financial statements. With no distinct definition of digital assets, auditors have to either apply disjointed legal rulings and non-binding standards, which complicates their work to give a true financial view.

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## 3. Digital Asset Auditing risks

There are a number of major risks associated with auditing of digital assets, and auditors need to implement newer practices and tools. These risks are associated with ownership and control, the volatility of valuation, and the complexity of smart contracts, and high trading volumes, which are the most evident. One of the most difficult areas of an audit is ownership and control of digital assets. Digital assets are not physically located but found in anonymous wallets like traditional assets that are physically traceable or can be legally titled. In cases where these assets are held in self-custody or shared wallets, auditors must rely on technical verification methods to confirm that the client actually controls the assets. The fact that cryptocurrencies are decentralized implies that no central authority owns them and wallets may be hacked or corrupted to compromise the ownership verification mechanism.

The valuation volatility of cryptocurrencies adds another layer of risk for auditors. Digital assets like Bitcoin and Ethereum can experience extreme price fluctuations, making it difficult for auditors to provide a consistent and accurate valuation. Financial reports may have material misstatements because of the drastic rise and setback in the value of cryptocurrencies between auditing periods. To address this challenge, auditors must adopt cautious, up-to-date valuation methods and continuously monitor market conditions. Wrong valuations may misguide investors and lead to losses of money and to inspection.

Smart contracts—self-executing contracts that operate on blockchain networks—introduce additional risks. Although smart contracts are meant to automate and do not require the use of intermediaries, they are prone to bugs or flaws in the code. This causes unintentional financial X-penes because these vulnerabilities can be abused. Moreover, smart contracts use the information on issues like pricing or terms, which could be erroneous or distorted, making the possibility of errors even higher. Auditors should review the terms of the smart contracts as well as make sure that the code is secure and that the contract is properly executed.

High transaction volumes are the last risk which is even greater a challenge. Blockchain technology enables a vast number of small transactions to take place in real-time and verifying each one can overwhelm traditional audit procedures. Auditors can find it difficult to trace and reconcile every transaction without specialized tools and automation. Blockchain's transparency offers the potential to track transactions directly from the ledger, but this requires auditors to adopt blockchain-specific tools and methodologies that can keep up with the volume of data.

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## 4. Regulatory Landscape of Uganda (circa 2022)

By 2024, the regulatory framework on digital assets in Uganda was mostly undefined, and auditors were left in a place of uncertainty. Both the Bank of Uganda and the Ministry of Finance have since then released statements publicly that the cryptocurrencies are neither legal tender nor authorized to trade. These cautions mention an important lapse in consumer protection because owners of digital resources have access to minimal options in case of theft and improper management of their holdings. This lack of legal safeguards puts an even greater burden on auditors, who have to perform their duties of ensuring that the digital assets under their care are properly reflected in the financial reports even in the face of evident lack of any regulatory oversight.

Legal ambiguity also makes matters worse. In April 2023, a landmark court decision specified that cryptocurrencies were unlawful unless affirmed by the central bank, and it has contributed to the status confusion. This ruling has placed auditors in an awkward situation as they aim to mold whether the Anatomy of digital assets can be seen as legal or

otherwise in law in Uganda. Those who auditors are at a high risk when it comes to liability as the country struggles to comprehend how to handle cryptocurrencies under the wider financial regime, especially as holdings of digital assets could be considered illegal at some point.

The Anti-Money Laundering (AML) Act Amendments took effect in 2020 and Virtual Asset Service Providers (VASPs) have been listed as part of the list of accountable entities regulated by the Financial Intelligence Authority (FIA) in Uganda. Nevertheless, VASPs have been registered slowly, and not all of them have complied. This creates a huge supervisory void and auditors are exposed to a regulatory environment where a large population of stakeholders of digital assets transactions are unregulated. Although there are mentions of digital assets in the national budget of Uganda and fintech activities, the regulations in that area are in their initial phase, with the framework of the delineation, usage, and audit of digital assets not identified yet.

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## 5. Why It Matters for Public Accounting and Auditing

The ambiguity in regulatory measures concerning the digital assets adopted in Uganda poses a great threat to auditors. One of the most burning issues is the higher possibility of fraud and misstatement. The lack of initial traceability of the transactions involving digital assets, and the decentralization setup of the cryptocurrencies, can easily enable misreporting or misappropriation to go unnoticed. The digital asset transactions might be altered or doctored without adequate controls and regulations and this may result in fraudulent financial reporting and reputational consequences on both the company and the auditors.

An additional hurdle to the audit is the legal vagueness of digital assets. Auditors would risk legal repercussions should holdings or activities in cryptocurrencies be found to be illegal or otherwise not supported by law in the future. This imposes a high degree of uncertainty on people who have engaged in auditing digital assets, by the fact that they have to make decisions through the relationship of a constantly changing legal environment. Another hot issue is the threat of money laundering and terrorist financing. Many digital asset transactions are uncontrolled, which makes them an easy target by bad actors. Although the AML Act in Uganda is already mandating the incorporation of VASPs into its regulatory system, its deficiency in overall enforcement and the slow implementation of VASP registration mechanisms leave auditors with no appetite to investigate possible illegal operations without appropriate scrutiny. This mounts more pressure on the auditors to be alert and take the initiative to detect suspicious activities. Considering such difficulties, auditors will have to prepare themselves with blockchain technology, smart contracts, and digital forensics. The conventional methods of audit cannot be applied to the space of digital assets and auditors need to use new tools and approaches to properly trace, exist and report on digital assets. Otherwise, there might be false financial statements, breaches of regulations, loss of credibility.

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## 6. Conclusion

Uganda's digital asset market is still in its infancy, but its potential to disrupt traditional financial systems cannot be ignored. With further development of digital assets, auditors need to identify with the complexity and risks of the innovations. Absence of transparent regulation, along with the volatility and complexity of digital assets, form a singular challenge to auditors. Auditors, policymakers, and the people would have to work together to secure the integrity of financial reporting by ensuring that digital assets are adequately regulated, audited, and interpreted. With the appropriate tools, training, and regulatory clarity, it is possible to develop a more transparent and secure environment of digital assets in Uganda to promote innovation and avoid exposing the financial machinery to unnecessary risks. Uganda should focus on educating the auditors on blockchain technology, smart contracts, and valuation approaches. Training auditors on such specialization will ensure that risks related to the presence of digital assets are reduced and financial reporting is more accurate. Moreover, the compliance in AML should be reinforced through licensing VASPs correctly and monitoring them, so as to enhance transparency and limit chances of criminal activity. The policymakers must also request regulation clarity through the development of clear frameworks of classifying, using, and auditing digital assets. Lastly, auditors need to take advantage of blockchain-enabled devices to directly trace and verify transactions of the ledger to enhance the efficiency and accuracy of audits.

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