



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
BANK OF UGANDA
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
BOU	Bank of Uganda
VAT	Value Added Tax
PAYE	Pay As You Earn
DBS	Defined Benefits Scheme
TDR	Trustee Deed and Rules
RMC	Risk Management Committee
FERMS	Foreign Exchange Reserve Management System
RTGS	Real Time Gross Settlement System
CSD	Central Securities Depository
SWIFT	Society for Worldwide Inter-bank Financial Telecommunication
DAPS	Database Audit and Protection System

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THE RT. HON. SPEAKER OF PARLIAMENT

Under the terms of Section 43 of the Bank of Uganda Act (Cap 51) and the National Audit Act, 2008, I am required to audit the financial statements of the Bank of Uganda. In accordance with the provisions of section 23 of the National Audit Act, I appointed M/s Ernst & Young, Certified Public Accountants, to audit the financial statements on my behalf and report to me to enable me report to Parliament in accordance with Article 163 (4) of the Constitution of the Republic of Uganda, 1995 (as amended).

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Bank of Uganda set out on pages 94 to 166, which comprise the statement of financial position as at 30th June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Bank of Uganda as at 30th June 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank of Uganda Act.

Basis for Opinion

The audit was conducted in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditors Responsibilities for the audit of the financial statements section of my report. I am independent of the Bank in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independent requirements applicable to performing audits of Bank of Uganda. I have fulfilled my other ethical responsibilities in accordance with IFAC code, and in accordance with other ethical requirements applicable to performing the audit of Bank of Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impairment of amount due from Crane Bank Limited (in receivership)	
<p>During the period from October 2016 to June 2017, Bank of Uganda injected UGX.472,562 million into Crane Bank Limited (in receivership) as intervention costs.</p>	<p>I obtained an understanding of the process to intervene in Crane Bank and reviewed the documents supporting the intervention costs.</p>
<p>In January 2017, Bank of Uganda sold specific assets and liabilities of Crane Bank Limited (in receivership) to DFCU Bank for a consideration of UGX.200,000 million payable over two and half years. The receivable from DFCU Bank is fully secured by government treasury securities.</p>	<p>I reviewed the computation of the present value of the amount due from DFCU Bank.</p>
<p>As at 30th June 2017, the outstanding balance on this account was UGX.397,833 million recorded as amounts due from Crane Bank Limited. This has been disclosed in note 22 to the financial statements. This was composed of UGX.200,000 million due from DFCU Bank and UGX.197,833 million due from Crane Bank Limited.</p>	<p>I reviewed management's assumptions used in the assessment of impairment of the asset and checked them for reasonableness.</p>
<p>As the amount due from DFCU Bank is interest free and recoverable over 10 quarterly instalments over a two and a half year period commencing in the third quarter of 2017, the outstanding balance was discounted and recognised at its present value of UGX.160,522 million as disclosed in note 22. The difference of UGX.39,478 million was recognised in profit or loss. Significant assumptions and judgements were applied in determining the fair valuation</p>	<p>I reviewed the presentation and disclosures included in note 22 to the financial statements for appropriateness.</p>

<p>of the UGX.200,000 million due from DFCU Bank which was discounted using estimated treasury bond rates over the two and a half year repayment period.</p> <p>The Bank also performed an impairment assessment of the intervention costs injected in Crane Bank Limited (in receivership) and concluded that the amount due from DFCU Bank was not impaired. However, a provision for impairment of UGX.197,833 million was recognised in respect of the amount due from Crane Bank Limited due to uncertainty of its recoverability.</p> <p>Due to the significant estimation uncertainty and judgment involved in determining the fair value and impairment assessments of the intervention costs due from Crane Bank Limited, I considered this to be a key audit matter. I also considered the disclosures relating to this matter to be fundamental to the users' understanding of the financial statements.</p>	
Impairment of Bank of Uganda's capital	
<p>As per the Bank of Uganda Act, Section 14(3), the issued and paid-up capital of the Bank shall be a minimum of UGX.20,000 million.</p> <p>As at 30th June 2017, the core capital of the Bank was below the minimum required capital by UGX.37,313 million as disclosure under note 44 to the financial statements. This was a result of a provision of impairment of amounts due from Crane Bank Limited (in receivership) amounting to UGX.197,833 million.</p> <p>I considered this issue to be a key audit matter as the non-compliance with the minimum capital requirement may result in inadequate capital which poses a business risk to the Bank and its operations.</p>	<p>I reviewed the Bank of Uganda Act, Section 14(3) and checked for compliance of the bank's capital.</p> <p>I discussed and evaluated management's explanation for the factors that led to the impairment of the capital.</p> <p>I discussed the steps with management that the Bank is taking to address the capital shortfall. I also assessed the reasonableness and feasibility of those plans.</p> <p>I reviewed the presentation and disclosures of the matter included in note 44 to the financial statements for appropriateness.</p>

Other matters

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Non-compliance with the Public Procurement and Disposal of Public Assets (Contracts) Regulations 2014**

During the review of the Bank's procurements for services undertaken, I noted the following exceptions where the procurement process commenced after the service providers had been engaged:

- (i) The Local Purchase Order No.56864 to a hotel to provide cocktail services for the 24th Joseph Mubiru Lecture held on August 02, 2016 had not been considered by the Contracts Committee. The total cost of the event was UGX.100 million inclusive of taxes.
- (ii) The procurement of tents, chairs, tables, decorations and public address system among others for the Bank of Uganda Anniversary Day celebrations which cost UGX. 64 million.
- (iii) On July 27 2016, the procurement and disposal department received a request to procure pens for the BoU@50 celebrations from the communication department; with the tender documentation submitted to the contracts committee on 29th July 2016. However, the purchase had been completed before the approval of the contracts committee.

There was non-compliance with Section 3 and Section 7 of the PPDA Act regarding the contracts committee powers to approve and award of contracts.

I advised the Bank to comply with the requirements of the Public Procurement and Disposal Act provisions.

- **Expense rationalization**

I performed an analysis of key expense lines of Bank of Uganda against other regional banks such as Central Bank of Kenya and Bank of Tanzania. Below are the findings noted;

- (a) **Currency costs**

As compared to the Central Bank of Kenya, the Bank had higher currency costs in 2016. I noted that this could be partly explained by the widespread use of mobile money in Kenya as compared to Uganda.

(b) **Currency centres/branches**

I noted that the bank had 8 branches and currency centres in both years 2016 and 2015 as compared to Kenya with 6 whereas Tanzania has 7. Currency centres/branches come with additional expenses such as administrative, payroll expenses, repairs and maintenance expenses. Refer to the table below the issue with the statistics.

A	<u>Currency costs</u>					
	Bank of Uganda (BOU)		Central Bank of Uganda (CBK)		Bank of Tanzania (BOT)	
	2016	2015	2016	2015	2016	2015
	UGX (m)	UGX (m)	UGX (m)	UGX (m)	UGX (m)	UGX (m)
	93,893	64,058	65,424	68,382	135,684	133,083
B.	<u>Currency Centres/branches</u>					
	Number of currency centres/branches					
	2016	2015	2016	2015	2016	2015
	8	8	6	6	7	7

The Bank risks not being able to sustain its operations with the need for continuous injection of capital from government. With the different competing priorities as outlined in the national budget, the Bank could continually face challenges in justifying its expenditure.

Management explained that Ugandan economy is largely a cash based economy with an average growth rate of 5% and in which the majority of the population prefer to transact in cash. The current cash in circulation is UGX.3.7 trillion with demand for cash growing at an annual growth rate of 12.0% (more than twice the GDP growth rate). The BOU has over the years pursued a strategy under the financial inclusion to promote the use of electronic payments systems including setting a maximum cheque limit of UGX.20 million, quarterly sensitization and the approval of mobile money partner bank guidelines. In order to further leverage off the technological advancements that have occurred over the years, an enhanced strategy that includes among others the setting up of a payment policy is being developed and it is hoped that if the public embraces the initiative, then they would begin realizing further reduction in demand for cash.

Management further explained that with regards to the current set up of branches, the bank has previously used the level and number of existence of commercial banks in an

area coupled with the level of population and its growth rate to determine whether there was need to set up a BOU branch. These branches have over the years ensured the availability of cash in all denominations, and enforced a clean note policy of which both actions have supported the economic activity especially in the sectors of agriculture and trade. However, with the Technological developments, BOU is adopting a strategy of not opening up new Currency Branches by partnering with commercial banks to provide currency distribution services in areas where BOU does not have branches. Whereas Uganda has more currency centres/branches, than in Kenya and Tanzania; this could be attributed to less automation in Uganda.

I advised management along with Uganda Bankers Association and the Telecommunication companies to develop initiatives to encourage the use and spread of mobile money and also to look at utilizing information technology to curb on the number of currency centres/branches.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank of Uganda Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably

be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

14th September, 2017

FINANCIAL STATEMENTS

