



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE**  
**FINANCIAL INTELLIGENCE AUTHORITY**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

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## **LIST OF ACRONYMS**

<b>Acronym</b>	Meaning
<b>FIA</b>	Financial Intelligence Authority
<b>IT</b>	Information Technology
<b>MoFPED</b>	Ministry of Finance, Planning and Economic Development
<b>AML</b>	Anti-Money Laundering
<b>CFT</b>	Counter Financing Terrorism
<b>AREA</b>	Association of Real Estate Agency
<b>ML/TF</b>	Money Laundering and Terrorism Financing
<b>TAI</b>	Treasury Accounting instructions
<b>LEA</b>	Law Enforcement Agency
<b>PFMA</b>	Public Financial Management Act
<b>PPDA</b>	Public Procurement and Disposal of Assets
<b>PDU</b>	Public Procurement and Disposal Unit

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**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the financial statements of Financial Intelligence Authority for the year ended 30<sup>th</sup> June, 2017 set out on pages 8 to 38. These financial statements comprise of the statement of financial position as at 30<sup>th</sup> June 2017, statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Financial Intelligence Authority for the year ended 30<sup>th</sup> June 2017 are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act 2015, and the Financial Reporting Guide 2008.

**Basis of Opinion**

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the organization in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The matters have been ranked according to the level of significance and those that are ranked as high risk have been considered in the audit report to Parliament in accordance with my reporting responsibilities.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the period. I have determined that there are no other key audit matters to communicate in my report.

## **Other Matter**

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Budget performance**

The Authority had budgeted to receive transfers from Treasury of UGX.7,673,054,866 but only received UGX.7,134,849,436 leading to a shortfall of UGX.538,205,430. This implies that some planned activities were not implemented.

A review of the budget performance for the year revealed that some targets were partially or not achieved at all despite release of some funds to the vote functions. **Appendix 1** refers.

For instance, capacity building programmes and staff training of FIA staffs to improve knowledge and skills to carry out strategic, tactical analysis of money laundering trends, payment of rent and payment for other utilities were not done. There is a risk that the Authority did not achieve its objectives hence failure to meet the international FIUs' mandates and knowledge sharing due to knowledge gaps.

Management explained that there was a general shortfall in the Government revenue which resulted in budget cuts across votes. The Secretary to the Treasury communicated this position while issuing the fourth quarter cash limits

I advised the Accounting Officer to continually engage the Ministry of Finance, Planning and Economic Development to ensure that budgeted funds are released and used to implement planned activities. .

- **Failure to establish Electronic Data Warehouse System**

According to Section 19(c) of the Anti-Money Laundering Act 2013 one of the key objectives of FIA is to enhance public awareness and understanding of matters related to money laundering.

I noted that the entity did not undertake any development and installation of an electronic data warehouse system to interface with data bases of key stakeholders, disseminate intelligence reports to LEAs, collect statistics on AML/CFT, undertake Parallel financial investigations as Strategies to improve collection and dissemination of information to competent Authorities to enhance the major objective of money laundering act. There is a risk that the Authority may fail to fight Money Laundering and Terrorism Financing (ML/TF) in the Country. This may in turn limit FIA from spear heading its mandate.

Management explained that the process of installing the goAML electronic system is ongoing and is expected for piloting effective from March 2018. FIA was affected by budget cuts however currently, targeted awareness programmes are being carried out.

I advised the Accounting Officer to expedite the process of installing the goAML electronic system with a view of enhancing the entity mandate.

- **Lack of governing regulations to various sectors**

Section 20 (e) of the Anti-Money laundering Act 2013 requires the Authority to give guidance to accountable persons, competent authorities, and other persons regarding compliance with the provisions of this Act.

I noted that the Authority undertook national risk assessment and identified sectors that are prone to money laundering. These included Association of Real Estate Agency (AREA), Gaming and lotteries, mineral sector and other non-regulated entities however; the Authority has not developed regulations to guide the activities of the affected sectors.

Failure to have regulations in these respective agencies hinders the governing and the provision of guidance by FIA hence the authority may not achieve its main objective of Anti-money laundering.

Management explained that the National Risk Assessment highlighted threats and vulnerabilities of Money Laundering and Terrorism Financing in key sectors such as real

estates, dealers in precious stones and gems. However, these sectors are not well regulated. The amendment to the AMLA designated the FIA as supervisor to non-regulated accountable persons. In this regard, FIA was advised to develop regulations that will guide this development.

In addition, FIA is liaising with the Ministry of Lands Housing and Urban Development and Ministry Energy and Mineral Development to ensure that real estate and the minerals' regulatory framework is put in place

I advised the Accounting Officer to liaise with MOFPED to come up with proper regulations to govern these agencies and provide proper guidance in the areas prone to money laundering in line with the Act.

- **Mischarge of expenditure-UGX.42, 844,599**

The Authority charged wrong expenditure codes to a tune of UGX.42, 844,599 (0.5% of the total expenditure) during the period under review. The practice is irregular and undermines the intentions of the appropriating authority and affects financial statement disclosures.

Management explained that they are committed to implement proper budgeting procedures in future and ensure that sufficient allocations are provided on the respective budget lines

I advised the Accounting Officers to seek authority from MOFPED if there is need to reallocate.

- **Staffing gaps**

Chapter 2.1 Human Resource Manual states that the Authority shall recruit and select employees based on its Human Resource Plan, which should have emphasis to the Authority's strategic and operational requirements.

17 posts (40%) out of the approved 43 remained vacant during the year. These included the key posts of; Director Legal, Inspection and Compliance, Director Audit, Director Finance & Administration among others. Staffing gaps have a negative effect on the general performance of the authority and affect the level and quality of service delivery.

Management explained that current staffing of FIA is inadequate to execute the core functions of the Authority. Management promised to continue to sourcing for funds from the Treasury for recruitment.

The Accounting Officers action on the matter is awaited.

### **Responsibilities of the Accounting Officer for the Financial Statements**

The Accounting Officer is responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the Financial Reporting Guide, 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Authority, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority'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 ISSAIs 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 ISSAIs, I exercise professional judgment 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 our 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 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 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 Accounting Officer 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.

I also provide the Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Accounting Officer, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

21<sup>st</sup> December, 2017



## **APPENDICES**

### **Appendix 1: Budget Performance**

<b>Vote function code</b>	<b>Item description</b>	<b>Budgeted out put</b>	<b>Budgeted Amount</b>	<b>Amount received</b>	<b>Unachieved out put</b>	<b>Management Response</b>
<b>1458</b>	Compliance with AML and CFT laws and Regulations	<ul style="list-style-type: none"> <li>• Monitor compliance with AML/CFT laws, AML/CFT Regulations and guidelines by accountable persons, competent Authorities, and other persons,</li> <li>• Developing supervision, inspection manuals</li> <li>• Inspection of 32 financial institutions (25 banks, 4 Credit institutions and 4 MDIs)</li> </ul>	130,480,000	110,170,420	Out of the 29 financial institutions (21 banks, 4 Credit institutions and 4 MDIs) inspected.	This activity could not be comprehensively undertaken due inadequate funds and staff although it was ear marked in the Ministerial policy statement.
	Legal Representation and Litigation	<p>Undertake application and registration of FIA as legal chambers, Updating legal library resources, purchasing new legislation and law reference books, Complying with requirements of the Advocates act.</p> <p>Gazetting and publishing</p>	81,000,000	0	Creation of a resource centre ( legal library) to comply with the requirements of the Advocates act	This activity could not be implemented due to lack of funds

		legal documents				
	Analysis and reporting Financial Operations	<ul style="list-style-type: none"> <li>• Receive analyse and interpret and disseminate suspicious transactions reported to the Authority</li> <li>• Maintain AML/CT statistics/ database of all reports submitted by accountable persons and ensure efficient record keeping of all information received for analytical work.</li> <li>• Very limited implementation of the declaration of cross border movement of currency and Bearer Negotiable Instruments</li> </ul>	480,000,000	330,000,000	<ul style="list-style-type: none"> <li>• Limited analysis of the suspicious transactions reports, large cash transactions reports filed with FIA.</li> <li>• Very limited implementation of the declaration of cross border movement of currency and Bearer Negotiable Instruments.</li> </ul>	This activity could not be fully implemented due to inadequate analysts. The cross border movement of currency could not be fully implemented due to lack of funds to procure specialised equipment to monitor at border points.
	Ensure safety and integrity of FIA information	<ul style="list-style-type: none"> <li>• Provide adequate ICT infrastructure for analysis and other business applications,</li> <li>• Develop and implement policies and procedures for electronic data processing and computer systems operations &amp; development.</li> <li>• Provide access to new technologies and also</li> </ul>	160,000,000	48,000,000	<ul style="list-style-type: none"> <li>• Provide adequate ICT infrastructure for analysis and other business applications,</li> </ul>	This activity could not implemented due to inadequate funds

		<p>acquire relevant hardware and software,</p> <ul style="list-style-type: none"> <li>• Provide for the safety and integrity of FIA information</li> </ul>				
<b>1459</b>	International Mutual Legal Assistance	<p>Undertake mutual legal assistance with National and International stakeholders to share information on identification, investigation and prosecution of financial crimes. Co-operate with international partners and participate in the events organized by international organisations e.g. (FATF, ESAAMLG, EGMONT etc.</p>				
	Financial Intelligence Research and Strategic Development	<ul style="list-style-type: none"> <li>• Design FIA strategic plan to guide implementation of its mandate to achieve the desired vision.</li> <li>• Undertake typologies to establish ML/FT trends and practices.</li> <li>• Sensitise the public and stakeholders on matters of AML/CFT.</li> <li>• Prepare FIA training programme to support capacity development.</li> </ul>	700,000,000	630,000,000	<ul style="list-style-type: none"> <li>• Typology studies to establish ML/TF trends and practices were not undertaken.</li> <li>• There was limited public awareness on matters of Money Laundering and Terrorism Financing.</li> </ul>	These activities could be undertaken due to lack of funds.

		<ul style="list-style-type: none"> <li>Undertake benchmarking studies and staff</li> </ul>				
	<b>Finance and Administration</b>	<ul style="list-style-type: none"> <li>Prudent financial and budgetary management,</li> <li>Maintenance of a skilled, efficient and well facilitated workforce.</li> <li>Procurement planning and effective implementation of the plans.</li> <li>Mainstreaming Gender and HIV/AIDS concerns.</li> <li>Management of FIA property and assets;</li> <li>Formulation and implementation of the Authority's policies.</li> </ul>	5,133,374,866	5,047,107,230	<ul style="list-style-type: none"> <li>Prudent financial and budgetary management.</li> <li>Formulation and implementation of the Authority's policies was not adequately done</li> </ul>	This activity was not well implemented due to budgetary cuts by Min. of Finance which occasioned accumulation of domestic arrears.
	Development and Management of internal Audit and Controls	<ul style="list-style-type: none"> <li>Development &amp; Management of Internal Audit and control systems,</li> <li>Review of the payroll management and procurement processes,</li> <li>Review of collection of fine adjudicated under AML/CFT,</li> <li>Utilities, asset management and</li> </ul>	148,200,000	135,000,000	<ul style="list-style-type: none"> <li>Participation in continuous professional development activities/engagements</li> </ul>	The Shortfall insignificant.  Most activities were adequately done.

		<p>domestic Arrears Audit,</p> <ul style="list-style-type: none"><li>• Special Audits engagement,</li><li>• Review of accountabilities of expenditures,</li><li>• Review of the financial statements,</li><li>• Participation in continuous professional development activities/engagements</li></ul>				
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## **FINANCIAL STATEMENTS**