



**THE REPUBLIC OF UGANDA**

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

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

## **LIST OF ABBREVIATIONS**

ADF	-	African Development Fund
AfDB	-	African Development Bank
BDS	-	Business Development Services
GoU	-	Government of Uganda
IAS	-	International Accounting Standards
IFRS	-	International Financial Reporting Standards
IsDB	-	Islamic Development Bank
MFI	-	Microfinance Institutions
MSC	-	The Microfinance Support Centre Ltd
NSADP	-	Northwest Smallholder Agricultural Development Project
NSSF	-	National Social Security Fund
PAP	-	Poverty Alleviation Project
RIEEP	-	Rural Income and Employment Enhancement Project
RMSP	-	Rural Microfinance Support Project
SACCOs	-	Savings and Credit Cooperative Societies
URA	-	Uganda Revenue Authority
Ushs	-	Uganda Shillings
USD	-	United States Dollar
VAT	-	Value Added Tax
WHT	-	Withholding Tax

**REPORT OF THE AUDITOR GENERAL ON THE FINANANCIAL STATEMENTS**  
**OF THE MICROFINANCE SUPPORT CENTRE LIMITED**  
**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 Microfinance Support Centre Limited for the year ended 30<sup>th</sup> June 2017. These financial statements comprise of statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows, Special account statement and notes to the financial which contain a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Microfinance Support Centre Limited as at June 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

I conducted my audit in accordance with International Standards on Auditing (ISAs). 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 Project Management 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 (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 judgment were of most significance in my audit of the financial statements of the current period. I determined that there are no key audit matters to communicate in my report.

### **Other matters**

I consider it necessary to communicate the following matter other than those presented or disclosed in the financial statements. The Company is pursuing legal redress.

- **Failure to adhere to lending policies**

The Company's established lending policies were in some cases not adhered to. This resulted into substantial bad debts of UGX.1.7 billion being written off in respect of Uni Oils Ltd that had defaulted payment of the loan that was written off. I noted that the loan was advanced on the basis of an incomplete appraisal and false valuation of the property provided as security against the loan.

Management explained that when the clients defaulted, further due-diligence was undertaken on the valuation report and it was established that company and the valuer has connived to grossly over value of the property.

Management should ensure that loans are approved in accordance with the thresholds stipulated in the operational procedures manual. I await recovery of the money.

- **Authorizations of bad debts write off**

The abandonment of claims and write off of public money is regulated by Section 35 (3) of the Public Finance Management Act 2015 which requires the Minister approval to abandon and write off a loss where the amount of loss is exceedingly UGX.10 million. However, I noted that MSC did not seek approval of the Minister before writing off bad debts amounting to UGX.2,509,806,000.

Management explained that the Board of Directors is responsible for the management of the company and has the mandate to write off bad debts. However, the company will continue to pursue recovery. Further guidance will be sought from Solicitor General on the matter.

Management should seek the Ministers approval before writing off bad debts in accordance with PFMA 2015.

- **Non-compliance with Islamic Financing**

I draw attention to note 13 of the financial statements. Mudarabah contracts are drafted in accordance with Islamic Finance principles. However, the repayment schedules attached do not conform to Islamic Finance Principles. Under Mudarabah contracts, the underlying principle is to invest the funds into the Mudarib's business and share the profits in pre-agreed profit sharing ratios. However, we noted that repayment schedules calculated at the agreed interest rate are attached to the Mudarabah contracts. Therefore, interest is charged instead of sharing actual profits implying non-compliance with Islamic fund contract requirements. This violates the profit sharing clauses of contracts signed with the clients.

Management explained that Mudarabah contracts are funded based on Projection profitability analysis which is agreed between client and MSC. The indicate profit to be shared is an indicative figure which can change depending on payment outcomes. Therefore, no interest is being charged on the Mudarabah funds being disbursed.

Management should ensure that the returns from Islamic finance contracts are shared in accordance with Islamic financial principles.

- **Excess Interest charge on Teachers' Loans**

I noted that teachers' loans were given to different SACCOs, which were not teachers. An example is Rukungiri Rural Microfinance SACCOs – Ibanda that was advanced teachers funds and in the loan agreement, it was stated that the SACCOs could disburse loans at interest rate of 26%.

Management explained that teachers' loans are extended to SACCOs that have sizeable number of teachers as members so as to increase absorption of the fund. Besides, MSC has clearly stated that loan agreement with SACCOs should not exceed interest rate 15% to teachers and monitoring will be intensified.

I advised management to lent out teachers money to teachers loan at the agreed maximum rate.

### **Management Responsibility**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is responsible for assessing the company'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 management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company'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 Project'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 Project'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 Project to fail to deliver on its mandate.
- 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 Management 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 Management 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 Management, 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.

### **Report on Other Legal and Regulatory Requirements**

As required by the Companies Act, 2012, I report to you based on my audit, that:

- (i) I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of accounts have been kept by the company so far as appears from my examination of those books; and
- (iii) The company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



John F.S. Muwanga

**AUDITOR GENERAL**

Kampala, Uganda

22<sup>nd</sup> December, 2017



**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF  
MICROFINANCE SUPPORT CENTRE LIMITED  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**Opinion**

I have audited the Special Account for credit funds under RIEEP (IsDB) under Microfinance Support Centre Limited for the year ended 30th June 2017 which is set out on page 36-37 of financial statement.

In my opinion, Project Management complied in all material respects with IsDB rules and procedures and that the Special Account Statement for Microfinance Support Centre Limited presents fairly in all material respects the account transactions and the closing balance as at 30<sup>th</sup> June 2017.

**Management Responsibility for the Special Account Statement**

Management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (IsDB) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

My responsibility is to express an opinion on the special account statement based on my audit. I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and the IsDB guidelines on auditing. Those standards and the loan guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the special account statement is free from material misstatement. I believe that the audit evidence I have obtained provides a reasonable basis for my opinion.



John F.S. Muwanga

**AUDITOR GENERAL**

22<sup>nd</sup> December, 2017

