THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE TREASURY OPERATIONS FOR THE YEAR ENDED 30TH JUNE 2017

DECEMBER, 2017
OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

ACRONYM	DESCRIPTION
AO	Accounting Officer
Bn	Billion
BoD	Board of Directors
BoU	Bank of Uganda
FY	Financial Year
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants' Code
ISSAIs	International Standards of Supreme Audit Institutions
MOFPED	Ministry of Finance, Planning and Economic Development
MoUs	Memoranda of Understanding
OAG	Office of the Auditor General
PFMA	Public Finance Management Act, 2015
PS/ST	Permanent Secretary/Secretary to the Treasury
TAI	Treasury Accounting Instructions, 2016
UCF	Uganda Consolidated Fund
UGX	Uganda shillings
USD	United States of America Dollars

Statement of Responsibilities of the Accounting Officer

The financial statements set out on pages 12 to 44 have been prepared in accordance with the provisions of section 26(15) the Public Finance Management Act, 2015. The financial statements have been prepared on the modified cash basis of accounting and comply with the generally accepted accounting practice for the public sector.

In accordance with the provisions of Section 45 of the Public Finance Management Act, 2015, I a m responsible for the control and personally accountable to Parliament for the regularity and propriety of the expenditure of money applied by an expenditure vote, or any provision funded wholly through the Consolidated Fund, and for all resources received, held or disposed of.

Under the provisions of Section 51 of the same Act, I am required to prepare, sign and submit financial statements to the Auditor General and the Accountant General within a period of two months from the end of the Financial Year. Accordingly, I am pleased to submit the required financial statements in compliance with the Act. I have provided, and will continue to provide all the information and explanations as maybe required in connection with these financial statements.

To the best of my knowledge and belief, these financial statements agree with the books of account, which have been properly kept.

I accept responsibility for the integrity of these financial statements, the financial information they contain and their compliance with the Public Finance Management Act, 2015.

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Lawrence Semakula

Date:

Information about the Entity

Ministry of Finance (Treasury)
P.O. Box P.O. Box 8147,
Kampala - Uganda
Plot 6 Treasury Building, Plot 2-12 Apollo Kaggwa Rd,
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Website: http://www.finance.go.ug

Treasury Operations is managed by Treasury, under the Ministry of Finance Planning and Economic Development (MoFPED) and as such, follows the Vision, Mission and Mandate of MoFPED which are highlighted below;

Mandate

The mandate of the Ministry is to;

- To Formulate policies that enhance stability and development
- To mobilize local and external financial resources for public expenditure
- To regulate financial management and ensure efficiency in public expenditure
- To oversee national planning and strategic development initiatives for economic growth

Vision Statement

A most effective and efficient Ministry of Finance, Planning and Economic Development that is capable of achieving the fastest rate of economic transformation among the emerging economies.

Mission Statement

To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development

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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Treasury Operations for the year ended 30th June 2017, which comprise of the Statement of Financial Position as at 30th June 2017, the Statement of Financial Performance, Statement of Changes in Equity, and Cash flows together with other accompanying statements and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements for the Treasury Operations for the year ended 30th 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 for Opinion

I conducted my audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs) and the National Audit Act, 2008. 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 management of the Treasury Operations, 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. 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 have determined that there are no key audit matters to communicate in my report.

Other Matter

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

1.0 GOVERNMENT INVESTMENTS INITIATED BY INDIVIDUAL VOTES

Instruction 14.7.2 of the Treasury Instructions requires the Accountant General to maintain an Investment Ledger for investments made and separate accounts in respect of the investments held. The ledgers shall be in a form that will clearly show the following, Particulars of the investment, Nominal amount, if any, of investment, Current Value, Income received, actual cash paid representing the capital invested and the duration of the investment.

I observed that several votes incorporated different investment companies as shown in the table below without following any government policy and were therefore not recognized as government investments;

Table showing Investments by Votes not in the Investment ledger

SN	Vote	Company Name
1	Apac District Local Government and 4 sub-counties	Maruzi Local Government development Forum
2	Masindi Local Government	Masindi Community Education Foundation Limited
3	Adjumani DLG, Arua DLG, Koboko DLG, Maracha DLG, Moyo DLG, Nebbi DLG, Yumbe DLG	Mayank Development Association
4	Rukungiri DLG	Rukungiri Power Company Limited
5	NARO	NARO Holdings Ltd

I observed that, government has no policy to guide the incorporation, management and winding up of such companies. The continued incorporation and management of such companies in the absence of a guiding policy exposes Government to challenges in management of such companies and litigation risks on winding up.

In his response, the Accounting Officer informed me that there was an information gap between the votes/entities, and Treasury on the said investments. He pointed out that measures were in place to develop a comprehensive asset management framework which would help to guide future investments. The Accounting officer undertook to follow up the listed companies and take appropriate measures to rectify the issues.

I advised the PS/ST to develop policies to guide on the incorporation of investment companies by other Government agencies and Local Governments.

2.0 INCREASED PAYMENT OF COMMITMENT FEES ON UNDISBURSED DEBT

Commitment fees are paid for debt which has been contracted but not yet disbursed. A trend analysis of commitment fees paid over a four year period revealed a consistent increase over the years with a 281% increase between 2015/16 and 2016/17. The increase in commitment fees is as a result of the failure by GoU to draw down and absorb contracted government debt. Furthermore a review of GoU loans revealed an increase in undisbursed loans from UGX.5.69 Trillion in FY 2013/14 to UGX.18.4 Trillion in FY 2016/17.

The above has increased government expenditure on debt repayment in form of payment of high commitment fees, and denied government of the funds that could have been put to financing other budgetary needs. In addition, this has caused unnecessary tax burden to the taxpayers.

Management explained that commissions and commitment charges arose as a result of payment of management fees on one-off payments on newly signed loans. However, as I noted above, the increase in payment of commitment fees is majorly due to failure by GoU to draw down and absorb contracted government debt. I advised Government to identify and resolve any bottlenecks hindering the smooth implementation of projects/programmes and activities so as to increase its loan/debt absorption rates.

3.0 INCREASING INTEREST PAYMENTS

A review of interest payments revealed that in the financial year 2016/2017, the debt office was again in breach of its debt management policy. I observed that the interest payments increased to 17% of total government revenue (excluding grants) which is 2% above the set target of 15%. In absolute terms, the interest payments increased from UGX.981,367,279,594 in financial year 2013/14, to UGX.2,286,754,186,964 in financial year 2016/17. It should be noted that although there was a 22.5% increase in revenue collected, this was not sufficient to keep the interest proportion within the stated limits. This was attributed to increased government borrowing at commercial rates.

The Government, like in the previous year, has not complied with its debt management policy, thus resulting into a 2% points above the set target of 15%. This undermines the government efforts in monitoring its debt sustainability levels.

The Accounting Officer in his response explained that the increased interest payments on external borrowings is due to the shift from more concessional borrowing to non-concessional borrowing to meet the increased demand for Government infrastructure development. I advised government to monitor its debt sustainability levels with a view of maintaining it within the set limit as per the debt management policy.

4.0 INCREASING STOCK OF GOVERNMENT DEBT (BORROWING)

A trend analysis of the Government Debt shows an up-ward movement of 31.8% from UGX.21.8 trillion in FY 2014/15 to UGX.28.7 trillion in FY2015/16, and 16.5% from the previous year to UGX.33.5 trillion in FY 2016/17. Government has continued to increase the net borrowing as shown in the table below;

Table showing borrowing

Debt Category	2014/2015 Amount - UGX	2015/2016 Amount - UGX	2016/2017 Amount - UGX
Domestic Borrowing	7,233,576,066,692	10,758,749,716,035	11,407,324,547,093
External Borrowing	14,573,944,852,216	17,983,246,606,461	22,102,549,975,599
Total	**21,807,520,918,908**	**28,741,996,322,496**	**33,509,874,522,692**

The trend in domestic debt is attributed to the fact that over the years, maturing instruments are financed by further borrowing from the market. In effect, it implies that every year, Government borrows to finance both the maturing instruments and also to bridge the fiscal deficit. Similarly, the trend in external borrowing continues to show an up-ward growth due to continued government fiscal pressure to borrow to mitigate the high demand for government development programs in infrastructure construction, such as: roads, power generation, and oil and gas production, among others.

This may not be sustainable in the medium to long term as it erodes investor confidence and leads to high-risk premiums. Since the Government borrowing rates serve as the benchmark for the private sector, the high domestic Treasury yields and pressures on foreign exchange will result into high domestic commercial interest rates.

The Accounting Officer explained that the increase in the stock has been necessary due to the large spending pressures, while domestic tax revenue remains low. I advised Government to devise sustainable debt financing strategies that do not necessarily lead to incurring of more debt.

5.0 ISSUANCE OF TREASURY INSTRUMENTS

Treasury has delegated the process of issuance of Treasury bills and bonds to Bank of Uganda. At the moment, Bank of Uganda is using the 'primary dealership' system for issuance of instruments. The 'primary dealership' system limits the bidders for Treasury bonds and bills to a few institutional players. Currently, there are six major banks acting as primary dealers in Uganda, however, of these six only two are active.

The above exposes Government to the risk of limitation to competition and the corresponding potential incentive to collusive behaviour by the limited players.

The Accounting Officer explained that some changes had been made to the primary dealership. MOFPED and BOU are monitoring how the changes are affecting the domestic debt market before commencing additional reforms. I advised Government to expedite the reassessment of the current issuance system to establish whether it is optimal and take appropriate steps to address the deficiency.

6.0 MULTI-YEAR CONTRACTS WITHOUT PARLIAMENTARY APPROVALS

I observed that Government, entered into several Memoranda of Understanding (MoUs) with judgment creditors in which payment was to be done over a number of years, with some stretching up to 2023. I was not availed with any evidence of parliamentary approval for multi-year commitments as required by section 23 of the PFMA 2015. This exposes Government to further litigation in case parliament does not appropriate the funds in line with the commitments entered into.

The failure by Treasury to disclose to Parliament the multi-year transactions may lead to lack of funds to settle commitments when they fall due, thus culminating into further court cases and new awards.

In his response the Accounting Officer explained that the said commitments arose as a result of court rulings and are not considered as multi-year contracts for parliamentary approval. However, I noted that the MOUs entered into between the judgement creditors and the GOU create new commitments to the government (a transaction as stipulated in the provision of the law) which necessitate budgetary appropriation in light of the multi-year commitment.

I advised the PS/ST to seek parliamentary approval before entering into multi year commitments on behalf of Government, in accordance with the requirements under the Act.

Responsibilities of Management for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Treasury.

The Accounting Officer is also 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 Treasury's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Treasury, and using the Public Finance Management Act 2015, unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Treasury's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 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 ISSAI's 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 ISSAI's, I exercise professional judgment and maintain professional scepticism 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 internal control of the Treasury Operations.
- 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 of the Treasury Operations to deliver its mandate. 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 Treasury Operations to fail to deliver 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 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.

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA

19th December 2017.

FINANCIAL STATEMENTS