



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA COMMUNICATIONS COMMISSION (UCC)
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

UCC	Uganda Communications Commission
CAP	Chapter
GAR	Gross Annual Revenue
IESBA	International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAs	International Public Sector Accounting Standards
ISSAS	International Standards of Supreme Audit Institutions
IT	Information Technology
UBC	Uganda Broadcasting Council
UCC	Uganda Communications Commission
UGX	Uganda Shillings
USD	United States Dollar
UTL	Uganda Telecom Limited
RCDF	Rural Communication Development Fund

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

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of Uganda Communications Commission for the year ended 30th June, 2017. These financial statements comprise of the Statement of financial position, Statement of comprehensive financial performance, cash flow statement, Statement of comparison of budget and actual amounts together with notes and accounting policies.

In my opinion, the Commission financial statements present fairly in all material respects the financial position of Uganda Communications Commission as at 30th June 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) and the Uganda Communications Commission Act, 2013.

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 Commission 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.

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. 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 a separate opinion on these matters. I have determined the matter described below to be the key audit matter communicated in my report;

- **Outstanding receivables**

It has been observed that there have been shortfalls in budgeted revenue collections of the Commission over the years. The area was identified during the risk assessment of the Commission, at the preliminary stage of the planning, as a significant area, directly impacting on its mandate and an area of high stakeholder concern on the operational efficiency of the Commission.

At the preliminary planning stage, I assessed risks like non-existence of receivables and over/under valuation to ascertain whether all accounts receivable have been properly recorded and fairly presented and disclosed in Commission's financial statements. Consequently, I developed specific audit procedures which included reviewing the receivables ledgers, invoices and receipts to ascertain the existence and valuation of receivables, examining the receivables files and other correspondences to ascertain the impact of management's efforts to collect long outstanding debt such as hiring of debt collectors and legal action.

I reviewed the receivables' ledgers, invoices and the receipts. I examined the related files and correspondences to confirm the existence of the receivables. I also conducted interviews with Management and reviewed status of receivables after the year end in order to ascertain the recoverability of the outstanding receivables and assess reasonableness of the provision for doubtful debts.

Based on procedures performed, I observed that the Commission had outstanding receivables totaling to UGX.21.3bn with 3 debtors representing 57% of the total debtors. Overall total debt had decreased by 12.8% from the previous year. Refer to the table below;

Receivables	Outstanding Amount (UGX)	Management response
Telecom Company	11,439,373,604	<p>Management stated that the telecom company was handed over to the external lawyers for collection and it initiated process of revoking the company licenses and withdrawal of all spectrum held by the telecom company. Government through a Cabinet Decision undertook to swap the entire debt that the company owes UCC into Uganda Government shares in the company.</p> <p>Management further stated that the company is under administration and in a recent meeting held on 17th November 2017 between the Company Administrator and all its creditors, it was agreed that the Administrator be given additional six months to provide an update.</p>
Postal Company	566,724,370	The company has a payment plan in place of UGX.50 million per month beginning August 2017 and running for 18 months
Broadcasting Company	150,732,628	This has been assigned to external lawyers to file a case in court to recover the outstanding amount

Failure on the part of Management to recover outstanding receivables within set timelines may lead to write off of debts resulting into financial loss to the Commission.

I advised the Accounting Officer to expedite the legal process and have all the outstanding receivables collected.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter stated in the statement of comprehensive financial performance on page 2 of the financial statements.

- **Lack of internal mechanism to verify the operators Gross Annual Revenue**
The Commission collected an annual levy on Gross Annual Revenue (GAR) of telecom operators at a rate of 2% totaling to UGX.47.04bn. This constitutes 55% of total revenue collected during the year. However, the Commission could not independently verify GAR as the figure captured was based on the operator's records thus understating the estimated revenue.

Other Matter

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

- **Budget Performance**

I observed that the Commission budgeted to collect revenue amounting UGX.93.7bn during the year. However, actual revenue collection amounted to only UGX.84.9bn thus creating a shortfall of UGX.8.8bn (representing 9.4% of budgeted revenue). As a result, a number of activities were not implemented as shown in the table below. Failure to collect the budgeted revenues constrains management in the implementation of planned activities and hampers service delivery.

S/N	PLANNED OUTPUT	AMOUNT (UGX)	ACTUAL OUTPUT	Management Responses
1	<ul style="list-style-type: none">• UICT infrastructure developments	1,740,000,000	Development of UICT infrastructure not done	Procurement process was completed. The project is under implementation and at the time of this report it was 60% completed.
2	<ul style="list-style-type: none">• Spectrum Monitoring Systems upgrade	3,750,000,000	Upgrading of the spectrum system was not done	The project is under implementation and by the time of this report it was 90% completed.
	<ul style="list-style-type: none">• Acquisition of Quality of Service Equipment	5,269,300,000	No acquisition of service Equipment was made	The project is under implementation and by the time of this report it was 80% completed.
	<ul style="list-style-type: none">• Digital logger	464,000,000	No digital logger done	Undergoing procurement process.
3	<ul style="list-style-type: none">• Enterprise Resource Planning	3,750,000,000	Not implemented	The project is under implementation and by the time of this report it was 40% completed.
4	<ul style="list-style-type: none">• Balanced Score card Automation	375,000,000	Not implemented	Undergoing procurement process.

- **Lack of Communications Tribunal**

The Commission has not set up the Uganda Communications Tribunal as provided for under Section 60 of the Uganda Communications Commission Act, 2013 which should have jurisdiction to hear and determine all matters relating to communications services arising from decisions made by the Commission or the Minister under the Uganda

Communications Commission Act. Absence of a tribunal to boost amicable resolution of disputes among operators and the Commission stifles the communication sector's operational environment in Uganda and affects the Commission's ability to promote competition, including the protection of operators from acts and practices of other operators. It may also result into increased legal costs to the Commission in case of litigation.

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 the requirements of the Uganda Communications Commission Act and International Financial Reporting Standards on Accrual basis of accounting and for such internal controls 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, the Directors are responsible for assessing the Commission'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 Commission or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Commission'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 Company'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 Authority'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 Authority 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.

I also provide the Directors 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 Directors, 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 requirements

As required by the Uganda Communications Act (UCC), 2013 and the National Audit Act, 2008, 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 account have been kept by the Commission so far, as appears from my examination of those books; and
- iii. The statement of financial position and statement of comprehensive financial performance, cash flow statement, Statement of comparison of budget and actual amounts are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

8th December, 2017

FINANCIAL STATEMENTS