



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

ICT	Information Communication Technology
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
IRA	Insurance Regulatory Authority
ISAs	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institution
MoFPED	Ministry of Finance Planning and Economic Development
NAA	National Audit Act
PERD	Public Enterprises Reform and Divestiture Act 1993
PFMA	Public Finance Management Act 2015
PFMR	Public Finance Management Regulations 2016
PPDA	Public Procurements & Disposal Of Public Assets Authority
RT.HON	Right Honourable
TAI	Treasury Accounting Instructions 2017
UCC	Uganda Communications Commission
UGX	Uganda Shillings
URA	Uganda Revenue Authority
UTL	Uganda Telecom Limited
VAT	Value Added Tax
WHT	Withholding Tax

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF
INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30TH JUNE, 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Insurance Regulatory Authority (IRA) for the year ending 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, together with accompanying schedules and a summary of significant accounting policies and other explanatory notes.

In my opinion, the accompanying financial statements of Insurance Regulatory Authority for the year ended 30th June 2018, give a true and fair view of the financial position of the Authority as at 30th June 2018, and of its comprehensive income and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and Section 51 of the Public Finance Management Act, 2015.

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 Authority in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Parts A and B), 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 matters described below to be key audit matters communicated in my report.

- **Implementation of Budget Approved by Parliament**

Section 45 (3) of the Public Finance Management Act, 2015 states that “An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under Section 13 (15)” of the said Act. It has been observed over the years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

During the overall office wide planning, I assessed risks of inadequate release of funds, and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities.

Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

Based on the procedures performed, I observed that a total of UGX.11,653,765,000 was budgeted to cater for the Insurance Regulatory Authority activities. By the close of the financial year 121% of the approved budget i.e. UGX.14,148,174,578 had been received resulting into a budget surplus of UGX.2,494,409,578 (21%). I further noted that Management implemented a number of planned activities during the year. The major activities that were implemented included: Commencement of construction of the Insurance Regulatory Authority office building, monitoring and supervision of insurance firms, and licensing of new and existing insurance players.

I however noted that some of the planned activities, such as setting up of Insurance Appeals Tribunal, were not implemented. In addition signed contracts valued at UGX.83,397,132 were not executed at year end due to delayed procurement processes. Management explained that the failure to set up the Insurance Appeals Tribunal was delayed by the amendment of the Insurance Act, 1996, which process was on-going. Management further explained that they had continued execution of signed contracts.

I advised the Accounting Officer to ensure adequate planning for proper implementation of planned activities and liaise with other stakeholders to expedite the process of setting up the Insurance Appeals Tribunal.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the following matter presented in the financial statements that, in my judgement, are of such importance and fundamental to users' understanding of the financial statements;

- **Outstanding Receivables**

I noted under Note 12 that receivables amount of UGX.139,210,954 have been reduced down by UGX.74,253,400 being a provision for bad debts arising from defunct Insurance companies. The debts have been outstanding for over three years pending eventual write-off by the Board. The Accounting Officer explained that the delay in recovery was because the companies were in court over receivership.

I advised the Accounting Officer to ensure that all recovery procedures are exhausted and in case of a write-off, the provisions of Section 34 of the Public Finance Management Act (PFMA), 2015 should be observed.

Other Matters

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.

- **Delays in Construction of Insurance Regulatory Authority Office Building**

The contract for phase one construction of an ultra-modern 11-storeyed office building, for Insurance Regulatory Authority located at Plot 6, Lumumba Avenue, was awarded to a contractor at a contract price of UGX.28,434,000,915 on 28th December 2017. The

contract was for a duration of 18 months from the date of signing the agreement. Relatedly, the contract for Consultancy services for the design and construction supervision of the proposed office building was awarded to another independent contractor at contract price of UGX.520,011,250 on 9/7/2012. This contract was extended through an amendment of contract terms on 14/07/2014 resulting into an increase of the contract price to UGX.595,341,086. The contract was signed for duration of 117 weeks (29 months) which elapsed in December 2016.

During the Financial year 2017-2018, a total amount of UGX.6,245,194,687 was paid for the construction project, including an advance payment of UGX.5,686,800,183 to the contractor as per contract terms. I noted the following;

- The contract for the supervising consultant, expired in December 2016, but the firm was still supervising the construction works without a valid contract.
- The Supervising Consultant was reluctant to submit monthly supervision reports to the Contract Management Committee for reviews as per contract agreement, leading to delays in works, thus impairing the construction committee to take corrective action for any faults that would have been identified during the construction.

The Accounting Officer explained that management had commenced on the process of regularizing the contract for supervision of the construction and had revised the work plan for the construction. I advised the Accounting Officer to strengthen contract supervision and monitoring of the construction and expedite the process of regularising the supervising consultant to ensure a well-managed contract process.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of the Accounting Officer/Chief Executive Officer, Statement by Chairperson of the Board, Corporate governance report, financial highlights, Report of Directors, Statement of Directors' responsibility, and other general information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Accounting Officer 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 Insurance Regulatory Authority.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the International Financial Reporting Standards (IFRS), Section 51 of the Public Finance Management Act 2015, 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 Insurance Regulatory 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 General'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 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 judgement 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of 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 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 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 management 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.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act (NAA), 2008, I report to you, based on my work described on the audit of Financial Statements, that;

- Except for the matters raised in compliance with legislation section below, and whose effect has been considered in forming my opinion on financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

In accordance with Section 13 of the NAA, 2008, I have a responsibility to report material findings on the compliance of Insurance Regulatory Authority with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Incomplete Procurements**

According to Section 4 (c and g) of PPDA Regulations 2014, the annual procurement plan of a procuring and disposing entity shall state a time schedule of the procurement requirements and the recommended method of procurement for each contract package and the time estimated for each stage of procurement.

Whereas, the Authority planned and scheduled its procurements for the financial year 2017-2018, I noted that a number of procurements valued at UGX.210,684,500 were incomplete. The process of sourcing service providers was still ongoing. The delays in initiation and implementation of the procurements were attributed to staffing gaps in the procurement department and late planning of the procurements for the Authority. Delays in procurement processes distort budget implementation and hinder effective service delivery.

Management explained that IRA was in the process of recruiting procurement officers to reduce the workload of the Head of PDU. I advised the Accounting Officer to ensure proper procurement planning and strengthening of the contract management practices.

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

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
21st December, 2018