

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) FOR THE
YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA**

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LIST OF ACRONYMS

AWPB	Annual Work Plan and Budget
CSCGs	Community Savings and Credit Groups
FYR	Financial Year
GoU	Government of Uganda
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAD	International Fund for Agricultural Development
ISAs	International Standards on Auditing
LST	Local Service Tax
M & E	Monitoring and Evaluation
MIS	Management Information System
MoFPED	Ministry of Finance, Planning and Economic Development
NAA	National Audit Act
PMU	Project Management Unit
PROFIRA	Project for Financial Inclusion in Rural Areas
SACCOs	Savings and Credit Cooperatives Organisations
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperatives, Savings and Credit Union
UGX	Uganda Shillings

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) IFAD LOAN I-900-UG 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 Project for Financial Inclusion in Rural Areas (PROFIRA) for the financial year ended 30th June 2018, which comprise the Statement of Receipts and Expenditure, Statement of Special Account Activity, Statement of Special Account Reconciliation, Withdrawal Applications submitted and notes to the project financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements for PROFIRA for the year ended 30th June 2018 are prepared, in all material respects, in accordance with the terms of the loan agreement and in conformity with the basis of accounting described in Note 1 of the financial statements.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the IFAD Guidelines for Project Audits. 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 Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independent requirements applicable to performing audits 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 the audit of Project for Financial Inclusion in Rural Areas. 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 Information

The Project Management Unit is responsible for the other information. The other information comprises the information included in the Project Background and description, statement of the Accounting Officer and project management responsibilities, but does not include the financial statements and my auditors' opinion thereon.

My opinion on the financial statements does not cover the other information and I do not express 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 inconsistent 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 Project Management for the Financial Statements

The Project Management Unit (PMU) is responsible for the preparation and fair presentation of these financial statements in accordance with the terms of the loan agreement and in conformity with the basis of accounting described in Note 1 of the financial statements. This responsibility includes: designing, implementing and maintaining such internal controls 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 Project Management Unit (PMU) is responsible for assessing the project'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 the project management either intend to liquidate the project or to cease operations, or have no realistic alternative but to do so.

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 ISAs 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 ISAs, 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 Company'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 Project Management Unit's (PMU) 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 Company'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 Company 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 Project Management Unit (PMU) 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 Project Management Unit (PMU) with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them 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 Project Management Unit (PMU), 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;

- 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 AND FUNDING AGREEMENT

In accordance with Sections 13 of the National Audit Act (NAA) 2008, I have a responsibility to report material findings on the compliance of Project management with specific matters in key legislations and Funding Agreement. I performed procedures to identify findings in this regard, 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;

Insurance of Fixed Assets

Section 7.08(a) of Article VII of the financing agreement states that "The Borrower/Recipient or the Lead Project Agency shall insure all goods and buildings used in the Project against such risks and in such amounts as shall be consistent with sound commercial practice".

However, I noted that PROFIRA insures only the vehicles and PMU staff. All furniture and equipment including computers amounting to UGX.221 million were not insured. This contravenes the financing agreement.

I advised management to obtain an insurance cover for all fixed assets as required by Section 7.08(a) of Article VII of the financing agreement.

- **Delay in procurement of contracted service providers for phase II contracts under component 2-Community Based Financial Services**

I noted that there was a delay in finalization of the procurement processes for component 2-Community Based Financial Services. By the end of my audit field work in Mid October 2018, procurement processes of service providers for component 2.2-Strengthening, Innovations and Partnerships of Community Savings and Credit Groups (CSCGs) Phase II had not been concluded.

Given that the PROFIRA completion date is 31st December 2021 and the planned component 2 operations require three full years from the contract signing to the final payment to be completed, there is a risk of failing to complete the procurement processes on time.

I advised management to expedite the process of procurement and also be mindful of the closure dates during contract management.

- **Annual Work Plan and Budget (AWPB) execution**

I noted that there was a low AWPB execution rate of only 66%. This was mainly due to delays in procurement of Phase II service providers for component 2-Community Based Financial Services. I further noted that user department procurement for supplies amounting to UGX.83.5 million were deferred to financial year 2018/2019.

I advised management to set more practical targets to enable completion of all planned activities.

- **Linkage of mature CSCGs to formal financial institutions**

Field reviews of service providers' activities revealed that 16 out of the 18 mature Community Savings and Credit Groups (CSCGs) visited were linked to formal financial institutions for savings and loan products. Out of the 16 CSCGs, only 2 had started saving with the formal financial institutions and the 14 were not yet comfortable with

the operations of the formal financial institutions expressing fear that they would not readily withdraw their accumulated savings from the financial institutions at the end of the saving cycle. This implies that savings are kept at home exposing them to risks such as theft.

I recommend that a repeat linkage banking training including operations of the formal financial institutions should be done by the service providers to the mature CSCGs.

- **SACCO data in the Management Information System (MIS)**

The Project Management Unit (PMU) receives quarterly reports from service providers for component 1.1-SACCO Strengthening and the information received is entered into the MIS. However, it was noted that 55 SACCOs did not have their data under category A and B updated in the MIS for the last quarter ended 31st May 2018. Under the circumstances, PMU may take wrong decisions basing on incomplete data in the MIS, which may affect the attainment of the project objectives.

The PMU has indicated that going forward, they will intensify validating the quarterly reports and data on SACCOs at field level. I recommended that the PMU should strengthen validation of quarterly reports received from service providers before approving payments to service providers.



John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
7th December, 2018

REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT RECONCILIATION STATEMENT OF THE PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) IFAD LOAN I-900-UG FOR THE YEAR ENDED 30TH JUNE, 2018

Opinion

I have audited the accompanying Special Account Reconciliation Statement of the Project for Financial Inclusion in Rural Areas (PROFIRA) IFAD Loan I-900-UG for the year ended 30th June, 2018.

In my opinion the Project management complied in all material respects with loan rules and procedures and the Special Account Reconciliation Statement for the Project for Financial Inclusion in Rural Areas (PROFIRA) IFAD Loan I-900-UG presents fairly in all material respects the accounts transactions and the closing balances as at 30th June, 2018.

Management Responsibility for the Special Account Statement

Project management is responsible for preparation of the Special Account Reconciliation statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (IFAD) 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 Reconciliation statement based on my audit.

I conducted my audit in accordance with International Standards on Auditing (ISAs) and IFAD guidelines. 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

KAMPALA
7th December, 2018