

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
TREASURY OPERATIONS
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA

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LIST OF ACRONYMS

F/Y	Financial Year
GOU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MDA	Ministry, Department, and other Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
PDMF	Public Debt Management Framework
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal Authority
PPG	Public and Publicly guaranteed debt
TAI	Treasury Accounting Instructions
TOP	Treasury operations
UGX	Uganda Shillings
USD	United States Dollar

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
TREASURY OPERATIONS FOR THE YEAR ENDED 30TH JUNE, 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Treasury Operations for the year ended 30th June 2018. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Treasury Operations for the year ended 30th June 2018 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 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 Statement's section of my report. I am independent of Treasury operations 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;

- **Public debt management**

According to the Public Debt Management Framework (2013), Public debt is composed of Public and Publicly Guaranteed debt (PPG). This includes external debt, which is defined as debt denominated in foreign currency, and domestic debt contracted either through direct or indirect borrowing. According to the Audited financial statements for Treasury Operations for the financial year ended 30th June 2017, it was noted that the position of Government Public debt had again increased tremendously in the past three financial years. It is therefore imperative that acquisition and disbursement of loans are carried out diligently and proper controls exist to keep the debt sustainability in constant check.

Based on the above, I considered public debt as a key audit matter during my audit. The objective of the audit was to assess whether the acquisition, disbursement and subsequent repayment of all Public debt obtained by the government were in accordance with the laws, regulations, and policies of Government of Uganda, and the development partner's requirements in the loan agreements. During the overall office wide planning, I assessed risks related to public debt in relation to acquisition, disbursement and repayment of public debt.

Consequently, I developed specific audit procedures which included the review of the processes, procedures and documentation relating to the acquisition and disbursement of debt, analyzing the debt performance of the government, including confirming whether debt principal and interest are duly paid, and analyzing information on the debt management system for accuracy, completeness and consistency. In addition, I assessed the government debt sustainability position, by comparing debtor sustainability indicators of government against those at international and regional outlook, and best practice.

Based on the procedures performed, I observed the following;

- a. According to the Public Debt Management Framework (PDMF), Public debt is composed of external debt (Debt denominated in foreign currency) and domestic debt (stock of shilling denominated liabilities). This definition however, excludes domestic arrears which are on the rise across government. The total disbursed debt has increased by 22% from UGX.33.99 trillion as at 30th June 2017 to UGX.41.44 trillion as at 30th June 2018.

- b. There are a number of stringent loan conditions in the loan agreements signed by the Government of Uganda and these have further increased the cost of borrowing and at times expose Uganda's sovereignty to risk.
- c. There has been a huge increase in on lent loans to parastatals from UGX.431 billion in 2015/16 to UGX.4,634 billion in 2017/18 representing a 975% increment; however, this is caused by the failure by parastatals to repay loans earlier on lent. There is likelihood that the financing instruments being used are not appropriate for some parastatals.
- d. An assessment of Uganda's debt sustainability revealed that though Uganda compares well with other countries in the debt to GDP ratio, it fares poorly in interest to revenue and debt repayment to revenue ratios. This is largely due to the low tax to GDP ratios suffered by Uganda. As a result, Government is heavily relying on rolling over domestic debt.
- e. Government does not have a clear strategy that would protect the country against foreign exchange risk as a result of debt dominated in foreign currency. In the year under review, there was an exchange loss of UGX.2.4 trillion resulting from the translation of foreign denominated loans.

The details of the above findings and my recommendations, are contained in the **separate report on public debt attached as appendix 1.**

In response, Government has committed to addressing the above shortcomings by increasing efforts to collect domestic revenue, cutting back on short term domestic borrowing, initiating policies to support import substitution and export promotion, developing policies to deal with foreign exchange risk as well as developing new guidelines for loan negotiations. I have advised government to ensure that the above aspects are closely kept in check so as to mitigate the risks of getting into unsustainable levels of debt.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary 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 Treasury Operations.

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 vote's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Treasury Operations, 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 Treasury Operation'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 Treasury Operation'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 Treasury Operation's ability 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.

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 the compliance with legislation section below, and whose effect has been considered in forming my opinion on the 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 Treasury Operations with specific matters in key legislations. I performed procedures primarily 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;

- **Budgeting for Mandamus payments**

Section 13(10)(a) (iv) of the PFMA 2015 defines an annual budget as the financing estimates for the financial year to which the budget relates, including a plan for government debt and any other financial liabilities for the financial year to which the budget relates.

I noted that during the FY 2017/2018, a sum of UGX.81,969,654,114 was paid to beneficiaries of court awards from Treasury Operations resulting from several Memoranda of Understanding (MoU) signed between Treasury and the beneficiaries. I have noted that over the years, budgets for mandamus payments are included in the approved budget as notional amounts despite government entities having outstanding payments at the beginning of the year, including those for which settlement plans have been drawn as per the signed MoUs with beneficiaries. Accordingly, the bulk of the payments made in the year were made

out of supplementary budgets. Such a practice can lead to a distortion in Government cash flows and undermines the budgeting process.

Management explained that government cannot accommodate all of its commitments in the budget due to resource constraints but has committed to make proper budgets before payment of these commitments based on the existing MOUs that government has signed.

I further noted that regarding the several Memoranda of Understanding (MoU) with judgment creditors in which payments were to be made over a number of years with some stretching up to 2023, this tantamount to multiyear commitments for government. However, I did not obtain evidence that these were presented to Parliament as such, in accordance with Section 23(1) of the Public Finance Management Act 2015. I was also not availed with any evidence that these contracts and the related payments were budgeted for as multiyear commitments.

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 awards. The Accounting Officer explained that management has only been considering Multiyear commitment under the capital development budget for parliamentary approval, and going forward they will also consider the recurrent ones, including mandamus payments.

I await the outcome of this management commitment.



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

FINANCIAL STATEMENTS

APPENDIX 1

**REPORT OF THE AUDITOR GENERAL ON GOVERNMENT PUBLIC DEBT
MANAGEMENT**