



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA REVENUE AUTHORITY – CORPORATE SERVICES
FOR THE YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

BOU	Bank of Uganda
CG	Commissioner General
DTD	Domestic Taxes Department
E-TAX	Electronic Tax
F/Y	Financial Year
FRG	Financial Reporting Guide, 2018
GOU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
MDA	Ministries, Departments and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
NAA	National Audit Act, 2008
NSSF	National Social Security Fund
PDEs	Procurement and Disposal Entities
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal Unit
RT. HON	Right Honorable
TAI	Treasury Accounting Instructions
TPC	Tax Procedural Code Act
UCF	Uganda Consolidated Fund
UGX	Uganda Shillings
URA	Uganda Revenue Authority
VAT	Value Added Tax

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL
STATEMENTS OF UGANDA REVENUE AUTHORITY – CORPORATE SERVICES 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 the Uganda Revenue Authority - Corporate Services for the year ended 30th June 2018. These financial statements comprise of the statement of financial position as at 30th June 2018, the statement of financial performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Uganda Revenue Authority – Corporate Services 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 (as amended), and the International Public Sector Accounting Standards (IPSAS).

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 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. I have determined that there are no other key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the following matter which has also been disclosed in the financial statements;

- **Long Outstanding NSSF Arrears – UGX.3,675,217,390**

A review of the Statement of Financial Position on page 91 of the accounts, and Note 24 on page 104 revealed that as at 30th June 2018, the Authority had a total of UGX.3,675,217,390 disclosed as National Social Security Fund (NSSF) arrears. I noted that the NSSF arrears have accumulated over a long period of time, and as a result, it has attracted interest to the tune of UGX.630,747,990 in this financial year alone. I was not availed with a strategy of how the Authority intends to settle this obligation which has been reported in the previous accounts of the Authority. The failure to have a payment plan is likely to expose the Authority to more wasteful expenditure in form of interest expense.

The Accounting Officer explained that management was committed to a three-year payment plan to settle the obligation using anticipated savings from the rent expenditure after completion of the headquarter building. I advised the Accounting Officer to consider developing a strategy to settle this long outstanding obligation, including agreeing with NSSF on a payment plan for its settlement to avoid continued exposure to unnecessary interest charges.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the general information about URA, Management assertion, commentary by the Commissioner Corporate Services 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 Uganda Revenue Authority.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, IPSAS, 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 Uganda Revenue Authority, and using the accounting framework adopted, 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'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 Authority'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 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 the Uganda Revenue Authority 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 a 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, 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 National Audit Act (NAA) 2008, I have a responsibility to report material findings on the compliance of URA 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;

- **Excessive Cash withdrawals – UGX.12,985,802,703**

Section 11 of PFMA, 2015 requires Accounting Officers to obtain authority, from the Accountant General, for imprest warrants to facilitate cash payments for both standing imprest and warrants to Accounting Officers who require cash to be readily available to meet authorized payments. In addition, Paragraph 10.6.2 of the Treasury Instructions 2017, requires the Secretary to the Treasury, on the recommendation of the Accountant General, and following consultations with individual Accounting Officers, to set limits for cash payments to be made by Accounting Officers. Accordingly, the Secretary to the Treasury set the general vote cash limit to UGX.40 million per month.

However, due to the fact that URA is outside the Bank of Uganda controls, the Accounting Officer exceeded the cap, and without seeking for approval from the PS/ST made cash withdrawals to the tune of UGX.12,662,075,918, which was in excess of the monthly cash limit of UGX.40,000,000. It should be noted that the cash was mostly used to pay for expenses, such as: air tickets, car hire, staff salary advances and allowances, among others. Cash related expenditures are prone to misuse. In addition, withdrawing amounts beyond the cash limits authorized by the PS/ST, is a violation of the government control mechanism.

The Accounting Officer explained that cash payments were made to facilitate staff on critical and time-bound revenue activities of the Authority and management had embarked on a phased approach to reduce cash payments. I have advised the Accounting Officer to abide by the PFMA requirements and guidelines issued by the PS/ST in regard to cash drawings and payments.

- **Failure to advertise a call for bids to provide support and maintenance of Disaster recovery site firewall – UGX.618,866,009**

Section 45 of the PPDA Act, 2003, requires all procurement and disposal to be conducted in a manner which promotes transparency, accountability, and fairness. In addition, according with Section 7(2) of the PPDA (PDEs) Regulations 2014, where a procurement requirement is divided into lots, which may result in separate contracts, the choice of procurement method shall not be determined by the estimated value of each individual lot but by the total value of all the lots.

I noted that under procurement ref. URA/SRVCS/CSD/17-18/00603, two contracts Lot 1 and Lot 2 were awarded to two companies for the provision of support and maintenance of the Disaster Recovery Site firewall. Lot 1 contract was awarded at a contract value of UGX.1,285,820,409.55 while Lot 2 was awarded at a contract value of UGX.618,866,009. However, only Lot 1 was advertised. Despite Lot 2 not being advertised, firms submitted bids which were evaluated and the best bidder awarded. I could not establish how the firms got to know of the services required. The failure to advertise a call for bids limits the potential bidders and hinders competition, thus value for money. It further casts doubt on the transparency and fairness of the procurement process.

The Accounting Officer explained that the failure to advertise both lots was an omission in documenting the details of the advertisement. I advised the Accounting Officer to ensure that all procurements are always conducted in a manner that promotes transparency, accountability, and fairness as advocated in the PPDA Regulations.

- **Absence of a Board Charter**

Section 4 (1) of the URA Act, 1991, provides for the establishment of the Board of Directors as the governing body of the Authority. A Board Charter is a policy document that clearly defines the respective roles, responsibilities, and authorities of the board of directors (both individually and collectively) and management in setting the direction, management and control of the organization. The Board

Charter does not only serve as a reminder of the Board's roles and responsibilities, but also provides guidelines on how the Board discharges its duties and responsibilities.

It was noted that the URA Board does not have a board charter to provide a shared understanding of the Board's role throughout the organization. Under the circumstances, there is a risk that the board's roles, responsibilities and method of executing them may be obscure leading to loopholes in how the corporate governance issues are managed. For instance, a review of the Audit Committee minutes revealed that the Commissioner General, who is the executive head and Accounting Officer of the Authority was co-opted on the Audit Committee, yet the same committee is supposed to evaluate and consider audit reports issued on the Authority's operations supervised by the Commissioner General. This causes a conflict of interest, thus undermining the basic principles of corporate governance. This also can lead to limited guidance on board procedural matters, thus causing challenges in future on certain Board decisions.

The Accounting Officer explained that the Board Charter was being developed and once approved it will be available for implementation. I advised the Accounting Officer to expedite the development and adoption of the board charter to provide a shared understanding of the roles and responsibilities of the Board.



John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
20th December, 2018