THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA REVENUE AUTHORITY – REVENUE COLLECTION ACCOUNT 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
CGV	Chief Government Valuer
DTD	Domestic Taxes Department
ECTS	Electronic Cargo Tracking System
E-HUB	Electronic Hub
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 on Auditing Institutions
MDA	Ministries, Departments and Agencies
MOU	Memorandum of Understanding
NAA	National Audit Act, 2008
PFMA	Public Finance Management Act, 2015
RECTS	Regional Cargo Tracking System
RT. HON	Right Honorable
TAI	Treasury Accounting Instructions
TCC	Tax Clearance Certificate
TPC	Tax Procedural Code Act
UCF	Uganda Consolidated Fund
UGX	Uganda Shillings
USD	United States Dollar
URA	Uganda Revenue Authority
VAT	Value Added Tax

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF UGANDA REVENUE AUTHORITY – REVENUE COLLECTION ACCOUNT 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 - Revenue Collection Account for the year ended 30th June 2018. These financial statements comprise of the Statement of Gross Revenue Collection summary by Category for the financial year ended 30th June 2018, the statement of Statement of Comparison of Target and Actual Revenue collection by Tax head, together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Uganda Revenue Authority - Revenue Collection Account for the financial 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. 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 a key audit matter communicated in my report;

- **<u>Revenue Collection analysis</u>**

Section 21(1) of the Public Finance Management Act 2015, entrusts the Accounting Officers with the responsibility of planning and managing the entity activities as indicated in the policy statement of the votes. Revenue targets are set every year based on the macroeconomic conditions of the country, amendments in the tax laws and the resources availed to URA.

I noted that URA has been making progressive improvements in its effort to increase the government revenue; however, the country's Tax to GDP ratio still remains low at about 14% compared to the continental average of 19%. Consequently, I developed specific audit procedures which included the evaluation of the revenue performance, comparison with targeted figures and verifying the accuracy and completeness of the reported revenue figures.

Based on the procedures I developed and performed, I noted that URA has made substantial improvements in its effort to increase the Government resource mobilization initiatives. Over the two year period, revenue from taxes has shown a positive increase as indicated in the table below;

Table Showing Revenue Collection Vs Targets for FY's: 2016/2017 & 2017/2018

Revenue Category	**2016/2017**		**2017/2018**	
	Target - UGX	**Actual - UGX**	**Target - UGX**	**Actual - UGX**
Customs & Excise Duty	5,791,957,915,653	5,414,560,817,776	6,183,817,187,530	6,210,841,650,809
VAT	1,952,435,232,568	2,021,461,708,283	2,611,583,829,428	2,234,380,816,047
Taxes on gains, profits & fees	5,372,384,121,272	5,327,985,390,093	6,093,434,222,757	5,839,740,675,400
Non Tax Revenue	247,869,395,292	253,544,357,864	380,263,982,869	374,872,355,815
Totals	**13,364,646,664,786**	**13,017,552,274,016**	**15,269,099,222,583**	**14,659,835,498,071**

During the FY 2017/18, the Net Revenue Collection (NRC) was UGX.14.6 Trillion, against the projected revenue collection of UGX.15.2 Trillion. The revenue collection was 95% of the annual target and represented a 13.65% increase from the previous year's revenue collection. This was attributed to improvements in tax compliance management in areas such as; registration, filing, declaration, reporting, and payment of taxes.

I also observed that there was a revenue shortfall of UGX.606.32 billion during the year under review, which was attributed to several administrative and policy setbacks.

From the above trend analysis, it is apparent that the transition from the manual tax collection processes to electronic systems has greatly improved the management of tax collection. The ongoing URA initiative of Tax Registration Expansion Program (TREP) has significantly increased the number of registered taxpayers from 632,379 in FY 2015/2016 to 1,320,691 in the FY 2017/18, representing 108.8% increment. The increase in the tax registration and improvements in other tax management initiatives have translated into increased tax revenue collection; however, the tax to GDP ratio still remains low; it is reported to be 14% at the close of 2017/2018 compared to the African average of 19 %.

Management explained that the Authority has further strengthened its revenue collection efforts and is currently in a surplus position as at end of October 2018.

Owing to the low tax to GDP ratio, I advised management to continue strengthening revenue collection efforts in order to further improve government tax to GDP ratio, and thus the total revenue required to finance government programmes.

Emphasis of matter

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

- **Uncollectible Cash**

  Included in the Non-Current Assets of the Authority under Note 7 on page 86 of the financial statement is uncollectible cash totalling to UGX.1,031,840,858 comprising of: Cash held on former revenue collection accounts of closed banks (UCB & ICB) worth UGX.467,202,229; bounced Cheques of UGX.67,087,846 which bounced between 1992-1993; and cash in other banks worth UGX.490,980,693 . Table below refers;

Table: Long outstanding receivables

Revenue collection accounts	Amount - UGX
UCB Branches (closed)	380,721,016
IRD UCB Branches (closed)	44,258,186
VAT UCB Branches	7,823,888
IRD ICB Branches (1998)	12,724,491
Cue ICB Branches (1998)	1,328,480
Cue UCB Foreign Exch. (closed)	20,346,168
Sub-total	**467,202,229**
BOU Bounced Chq-Forex between 1992-93	67,087,846
Other open banks	490,980,693
Foreign exchange (BoU)	6,570,090
Total	**1,031,840,858**

No evidence was presented by management suggesting recovery measures, yet the amounts have been outstanding for many years. The likelihood of recovery of these amounts appears remote and therefore the continued inclusion of the same under noncurrent assets impairs the balance of the assets.

The Accounting Officer explained that a provision for bad and doubtful debts would be provided in the accounts as management pursues MOFPED for write-off. I advised the Accounting Officer to pursue the modalities of writing off the amounts as stipulated in the Public Finance Management Act 2015.

Other Matters

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

- **Un-receipted collections: UGX.130 billion**

  Section Ref C.1 – (a) of URA Financial Manual requires that all revenue is recognized on a cash basis when the Commercial Banks and BOU have notified URA of cash in their custody as a result of a transaction between URA and the other party.

  A review of the dynamic reports revealed that a sum of UGX.130 billion received by BOU from Government MDA's and some Local Governments on behalf of URA could neither be receipted nor reconciled by URA because of lack sufficient information, such as the tax heads to be charged. As a result, these funds have not been transferred to the UCF and, are still on the BOU account.

  Collection of revenue without receipting and accounting for it, results into under-statement of revenue collected during the year and is misleading to the users. In addition, Government has not put to use the amounts despite the scarce resources at its disposal.

The Accounting Officer explained that the Authority is engaging other stakeholders (MOFPED & BOU) to expedite the process of creating a platform that enables sufficient exchange of complete information. I await the outcome of this engagement.

- **Domestic tax arrears**

A review of financial records of the entity revealed an escalation of unpaid domestic taxes over the years; the outstanding amount has grown from UGX.1.9 trillion 2016/2017 to UGX.2.6 trillion in 2017/2108 as shown below;

Table 2: Showing recoveries of outstanding tax arrears

	FY 2016/17	FY 2017/18
Arrears (UGX'Bn)	1,932.04	2,588.5
Recoveries (UGX'Bn)	348.02	598.46
%age recovery	**18%**	**23%**

Source: Management performance information in current year's financial statements

I further noted that the rate of recoveries for total arrears is minimal as it stood at 23% recovery rate in 2017/2018. Under the circumstances, there is a risk that the arrears may reach un-manageable levels which may result in writing off outstanding tax debts, thus leading to loss of government revenues.

Management explained that it had put in place a number of measures to curb accumulation and also improve recovery. The Commissioner General is advised to strengthen the follow up measures that have been put in place to enable timely collection of tax arrears.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the Authorities management performance report 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.

<u>Responsibilities of the Accounting Officer for the Financial Statements</u>

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 (as amended), 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.

<u>Auditor's Responsibilities for the Audit of the Financial Statements</u>

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 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 management 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 management, 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 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 matter are as follows;

- **Weaknesses in the collection of stamp duty from Land transactions**

  According to Stamp Duty Act, 2014 as amended in 2016, Stamp duty is charged on any instrument listed in schedule 2 of the stamp duty Act 2014 (as amended), which is executed in or outside Uganda, and which relates to property situated in Uganda or to a matter or thing done or to be done in Uganda. The payment of stamp duty is initiated by the taxpayer declaring a purchase value on a "consent to transfer" form, making a self-declaration on the e-tax system which are together submitted to the Chief Government Valuer (CGV) to give the property/ instrument value against which stamp duty is levied. According to the Stamps (Amendment) Act, 2016, Stamp Duty on land is payable at 1.5 % on the values of the property assessed by the CGV.

  An analysis of the Stamp Duty reports generated from the E-tax system for the period 2017/2018 revealed a total of 2,993 instruments worth UGX.239bn were registered to pay taxes on the system, but never completed the process. I observed that URA has no mechanism of confirming whether the land transactions took place in the Land Information Management System and Ministry of Lands also has no mechanism to confirm that funds had been paid to URA (E-Tax). This is due to the fact that the two systems of the Ministry of lands and URA have no interface to exchange data.

The above weaknesses provide an opportunity to unscrupulous persons to defraud government using fraudulent documents to execute land transactions, which ultimately may lead to loss of government revenue.

Management explained that on several occasions transactions are not completed and they have no mechanism to confirm whether the service was delivered. I advised the Accounting Officer to liaise with the Ministry of Lands to explore a mechanism of interfacing the two systems so as to enable exchange of data.

- **Failure to track All High-Risk Goods - UGX.265,972,974,206**

URA procured an Electronic Cargo Tracking System (ECTS) to facilitate real-time monitoring of goods in transit and put in place a control to monitor all high-risk goods without exception. The classification into high risk is already pre-determined and is set by the system. This is believed to be a much more efficient e-solution in terms of cost and time since it uses the GPS/GPRS technology. It is mainly intended to curb rampant diversion of goods in transit.

A review and an analysis of the High-Risk Goods Customs Report revealed that high-risk goods worth UGX.265,972,974,206 were not tracked until their final destination as there was no evidence in form of serial numbers for the e-seals used to track them. Under the circumstances, there is a risk that goods may be dumped into the market without payment of taxes.

The Accounting Officer explained that e-seals available and shared amongst the RECTS member states (i.e. Uganda, Kenya, and Rwanda) cannot handle the entire volume of the processed high-risk transit goods; thus, prioritization of high-risk goods is done through risk management. Currently, e-seals are costly for URA's budget as each seal costs USD.585.

I advised the Accounting Officer to ensure that in accordance with their classification criteria, high-risk goods should be consistently monitored to prevent loss of revenue resulting from dumping goods into the market.

- **Failure to collect identified taxes - UGX.108,079,587,034**

A review of Tax Investigation Department (TID) quarterly reports for the period under review revealed that taxes worth UGX.126,640,788,416 were due for collection following investigations by the Tax Investigation Department and were recommended to the respective departments for collection. However, Domestic Tax Department asserted that only UGX.18,561,201,382 was collected which is 14% of the collectible amount. The balance of UGX.108,079,587,034 remained outstanding.

The Accounting Officer stated that efforts were underway to recover the funds.

I advised the Accounting Officer to establish the causes of dismal performance in the collection of the amount due and devise realistic solutions to ensure that the amount is collected fully.

- **Issuance of Tax Clearing Certificates to Taxpayers with Tax arrears - UGX.809,611,255,873**

Section 43 (3) of the Tax Procedural Code Act provides that a taxpayer supplying goods or services to the Government shall obtain a Tax Clearance Certificate (TCC) from the Commissioner as proof of compliance with the taxpayer's tax obligations.

In addition, according to guideline 6(ii) & (iii); Management of Tax Clearance Certificates, TCC's are issued to taxpayers who are deemed compliant in filing tax returns and payment of tax obligations as they fall due.

It was noted that the Commissioner issued TCC's to non-compliant taxpayers and those with outstanding arrears to the tune of UGX.809,611,255,873 and; there was no evidence presented to confirm that they had entered into MOU's with the Authority to clear the balance. Under the circumstances, there is a risk of loss of tax revenue through continued noncompliance, and limited follow-up on taxpayers considered with clean bills.

Management explained that a review was being conducted on taxpayers identified by the audit and compliance action will be taken on the defaulters. I advised the Accounting Officer to ensure that tax clearance verification procedures are followed before the issuance of Tax Clearance Certificates.

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

APPENDIX 1

FINANCIAL STATEMENTS