OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

# NATIONAL SOCIAL SECURITY FUND

# (NSSF)

## REPORT AND OPINION OF THE AUDITOR GENERAL

## ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

OFFICE OF THE AUDITOR GENERAL

UGANDA

**CONTENTS**

## DIRECTORS

| | | |
|---|---|---|
| Mr. Ivan Kyayonka | - | Chairman (Appointed 01/06/12) |
| Mr. Richard Bigirwa | - | Member (Reappointed 01/06/2013) |
| Mr. Christopher M. Kassami | - | Member (Reappointed 01/06/2013) |
| Mrs. Christine Guwatudde Kintu | - | Member (Reappointed 01/06/2013) |
| Mr. Christopher Kahirita | - | Member (Reappointed 01/06/2013) |
| Mrs. Agnes Kunihira | - | Member (Appointed 01/06/12) |
| Mr. Henry Mukasa | - | Member (Appointed 01/06/12) |
| Mr. Musa Okello | - | Member (Appointed 01/06/12) |
| Mrs. Sarah Walusimbi | - | Member (Appointed 01/06/12) |
| Mr. Richard Byarugaba | - | Managing Director |

## HEAD OFFICE

14th floor, Workers House
Plot No. 1, Pilkington Road
P.O. Box 7140
Kampala

## AUDITOR

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Office of the Auditor General
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P.O. Box 7083
Kampala

## DELEGATED AUDITORS

Ernst & Young
Certified Public Accountants
18 Clement Hill Road
Shimoni Office Village
P.O. Box 7215
Kampala

## BANKERS

Standard Chartered Bank Uganda Limited
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P.O. Box 7111
Kampala

Citibank Uganda Limited
Centre Court, Plot 4 Ternan Avenue
Nakasero
P.O. Box 7505
Kampala

Stanbic Bank Uganda Limited
17 Hannington Road
P.O. Box 7131
Kampala

Bank of Baroda Uganda Limited
18 Kampala Road
P.O. Box 7197
Kampala

Housing Finance Bank Limited
25 Kampala Road
P.O. Box 1539
Kampala

Barclays Bank of Uganda Limited
Plot 2A& 4A Nakasero Road
P.O. Box 7101
Kampala

Tropical Bank Limited
Plot 27 Kampala Road
P.O. Box 9485
Kampala

Crane Bank Limited
Plot 38 Kampala Road
P.O. Box 22572
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## ADVOCATES

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Plot 7/ 9 Buganda road nextto Buganda Road
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Kampala

Ligormac Advocates
5th Floor Western Wing,
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P.O. Box 8230
Kampala

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(Formerly Omunyokol & Co. Advocates)
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P.O. Box 6737
Kampala

NATIONAL SOCIAL SECURITY FUND
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2013

The directors submit their report together with the audited financial statements for the year ended 30 June 2013 which disclose the state of affairs of the National Social Security Fund ('the Fund'), in accordance with section 32 (Cap. 222) of NSSF Act.

1. **Principal activities**

   The principal activity of the Fund is to collect contributions from members and invest in a professional manner to earn a good return to meet the benefit obligations to its members. The Fund is financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% is paid by the employee.

2. **Results from operations**

   The results of the Fund for the year ended 30 June 2013 are set out on page 7.

3. **Interest to members**

   Interest is computed based on the opening balances of the members' funds less benefit paid during the year. The rate used during the year ended 30 June 2013 was 11% (2012: 10%).

4. **Reserves and accumulated members' fund**

   The reserves of the Fund and the accumulated members' fund are set out on page 9.

5. **Unallocated members' funds**

   These are collections received from employers that have not yet been allocated to individual member accounts due to missing details of the members. Management has put in place a mechanism to continuously follow up these missing details from employers in order to update the individual member accounts.

6. **Directors**

   The directors who held office during the year and to the date of this report are set out on page 1.

7. **Auditors**

   In accordance with Section 32 (2) of the NSSF Act (Cap 222) Laws of Uganda, the financial statements shall be audited once every year by the Auditor General or an auditor appointed by him to act on his behalf. For the year ended 30 June 2013, M/s Ernst & Young Certified Public Accountants were appointed to act on behalf of the Auditor General.

8. **Approval of the financial statements**

   The financial statements were approved at the meeting of the directors held on 31 December 2013.

By order of the board,

**Mark Obia**
**Ag. Corporation Secretary**

## NATIONAL SOCIAL SECURITY FUND
## STATEMENT OF DIRECTORS' RESPONSIBILITIES
## FOR THE YEAR ENDED 30 JUNE 2013

The Ugandan National Social Security Fund Act (Cap 222) requires the directors of the Fund to prepare financial statements for each financial year, which give a true and fair view of the state of financial affairs of the Fund as at the end of the financial year and its operating results for that year. It also requires the directors to ensure that the Fund keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The directors are ultimately responsible for the internal control of the Fund. The directors delegate the responsibility for the internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Fund's assets. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent basis and using the going concern basis. These systems and controls include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan National Social Security Fund Act (Cap 222). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the results for the year ended 30 June 2013. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The pension sector is currently undergoing policy reforms as indicated in Note 1 to the financial statements. Despite these policy reforms, nothing has come to the attention of the directors to indicate that the Fund will not remain a going concern for at least twelve months from the date of this statement.

The financial statements were approved by the Board of Directors on 20 December 2013 and signed on its behalf by:

Mr. Ivan Kyayonka
**Chairman** :

Mr. Richard Byarugaba
**Managing Director** :

Mrs. Sarah Walusimbi
**Director** :

Mr. Mark Obia
**Ag. Corporation Secretary** :

## NATIONAL SOCIAL SECURITY FUND

## REPORT AND OPINION OF THE AUDITOR GENERAL TO PARLIAMENT

## FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2013

### THE RT. HON. SPEAKER OF PARLIAMENT

- I have audited the financial statements of the National Social Security Fund (NSSF) which comprise of the Statement of Financial Position as at 30th June 2013, Statement of Comprehensive Income, Statement of Changes in reserves and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 19 to 77.

### Management Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the NSSF Act (Cap 222) and for maintenance of such internal controls that are necessary for the fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my un-qualified audit opinion.

Part "A" of my report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

**PART "A"**

**Opinion**

In my opinion, the financial statements fairly present in all material respects the financial position of the NSSF as at 30th June 2013 and the income and expenditure for the year then ended in accordance with the basis of accounting stated under note 2 to the financial statements and in conformity with the IFRS and the requirements of the NSSF Act (Cap 222).

**Emphasis of Matter**

Without qualifying my opinion, attention is drawn to Note 35(b) of the financial statements.

- **Notice of Assessment for Corporation Tax from URA**

NSSF received a notice of assessment for Corporation Tax from Uganda Revenue Authority (URA) amounting to UGX.49.7 billion. The liability arose from expenses that URA claims were wrongly disallowed by the Fund. The Fund objected to the assessment and responded to the matter raised by URA, and by the time of this report, URA had not responded with the final outcome. No provision was made in the financial statements since URA had not informed the Fund of the outcome.

**Other Matter**

Section 19(1) of the National Audit Act, 2008 empowers me to satisfy myself that the financial affairs of the entity audited and public moneys under its control have been handled and conducted with regularity and propriety by the accounting officer or any other responsible officer. I draw your attention to the following matter that I consider significant in discharging my responsibilities:

- **Unallocated members' contributions in the migration account**

Employee contributions amounting to UGX.14 billion had not been credited to members' statements, but had been deposited to a separate "migration account". There is a risk of the members' statements not reflecting the correct contributions and the migration (suspense) account increasing.

John F. S. Muwanga

**<u>AUDITOR GENERAL</u>**

31st January 2014

## PART "B"

## DETAILED REPORT OF THE AUDITOR GENERAL

This section outlines the detailed audit findings, management responses and my recommendations in respect thereof.

### 1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. In accordance with the same provision, I appointed M/s Ernst & Young, Certified Public Accountants to audit the NSSF on my behalf and report to me so as to enable me report to Parliament.

### 2.0 BACKGROUND INFORMATION

National Social Security Fund (the "Fund") is a corporate body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act, (Cap 222). The Fund is largely financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% by the employee.

Government is currently implementing policy reforms whose objective is to liberalize and regulate the retirement benefits sector. These reforms have entailed the enactment of the Retirement Benefits Regulatory Authority Act, 2011, which came into force in September 2011. The new law establishes the Retirement Benefits Authority (RBA) whose function is to regulate all the retirement schemes including NSSF, and to grant a grace period of one year within which the Fund must obtain a license from RBA.

Government also tabled the Retirement Benefits Sector Liberalization Bill, 2011 before Parliament whose objective among others, was to repeal the National Social Security Fund Act. Nevertheless, management is drawing a strategic road map to enable the Fund transit from a statutory corporation created by the NSSF Act to a Trust registered and licensed by RBA and competing in a liberalized environment.

## 3.0 AUDIT SCOPE

The audit was carried out in accordance with the International Standards on Auditing and accordingly included a review of the accounting records, agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:-

a. The Fund managers are managing the Fund in accordance with the NSSF Act and whether they have adhered to the established financial compliance requirements;
b. The financial statements have been prepared in accordance with the IFRS and the requirements of the NSSF Act (Cap 222) and that they present fairly the financial performance and position of the Fund as at 30th June 2013;
c. Sufficient internal controls have been applied consistently throughout the year to safeguard the assets of the Fund and mitigate the risk of misstatement of the financial statements;
d. All necessary supporting documents and records have been maintained and are in agreement with the financial statements presented;
e. Goods and services have been procured in accordance with the Government of Uganda (GoU) procurement regulations; and
f. Fund's assets were well managed in the period under review.

## 4.0 PROCEDURES PERFORMED

### 1) Revenue/Receipts

Obtained schedules of receipts and reconciled the amounts to the Fund's cashbooks and bank statements.

### 2) Expenditure

Vouched transactions to establish whether documentation in support of the expenditures agreed with the amounts and descriptions on the vouchers; reviewed and reconciled the bank statement transactions to test for occurrence and whether they were properly controlled and accounted for.

### 3) Internal Control System

Reviewed the internal control system of the Fund and its operations to establish whether the controls were sound and were applied throughout the period under review.

4) **Procurement**

Reviewed the procurement of goods and services under the Fund during the period under review and reconciled with the procurement plan.

5) **Fixed Asset Management**

Reviewed the use and the management of the Fund's assets during the period under review.

6) **Financial Statements**

Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

## 5.0 AUDIT FINDINGS

## A. INTERNAL CONTROL, TAX AND IT ISSUES

### 5.1 Notice of Assessment for Corporation Tax from URA

NSSF received a notice of assessment for Corporation Tax from Uganda Revenue Authority (URA) amounting to Shs.49.7 billion. The liability arose from expenses that URA claimed were wrongly disallowed by the Fund. The Fund objected to the assessment and responded to the matter but by the time of this report, URA had not responded with the final outcome. No provision was made in the financial statements since URA had not informed the Fund of the outcome.

### 5.2 Unallocated members' contributions in the migration account

By the time of audit, employee contributions amounting to UGX.14 billion had not been credited to members' statements, but had been deposited to a separate account referred to as "migration account". There is a risk of statements not reflecting the correct member's contributions and the migration (suspense) account increasing.

Management attributed this to either failure by employers to submit members' schedules concurrently with the contribution remittances or errors in the submitted schedules and further explained that they had started on the enhancement of E-Collection software where the employer schedules will be uploaded directly to the NSSF servers/website by the employer rather than submitting them to the banks. I await the outcome of management's remedial action.

### 5.3 Un-secured Loan to related party

The Fund issued an unsecured 10 year loan facility of UGX.15,219,768,000 to Uganda Clays Limited (UCL) in 2010 with a grace period of 2 years. As at 30 June 2013, the loan still stood at UGX.15.2 billion. The repayments that were due in January 2013 were not honoured by UCL. It was noted that the facility was being reviewed for possible restructuring and had also been assessed for impairment for purposes of reporting in the financial statements. There is a risk of financial loss to the fund in case UCL fails to repay the loan.

Management explained that the loan extended to UCL was to rescue it from imminent receivership and that the loan terms were being reviewed consistently with the company's capacity to service. I await the outcome of management's actions and will review the recoverability of this loan recovery in the subsequent period.

### 5.4 Weaknesses in the management of members' contributions

Through review of the members' accounts, audit noted the following weaknesses in the management of the members' contributions;

- There was no evidence to suggest that adequate reviews were carried out on entries posted to the member's accounts. For example, UGX.30 million had been transferred from a member's account to the reserve account in error, although this was later reversed.
- There were some members' accounts with debit balances of up to UGX.250 million due to miss postings. These were subsequently reversed.
- For the period 2012/13, there were contributions by different employers for which receipts bearing the same receipt numbers were issued. This was due to system weaknesses.

There is a risk of misstatement of the members' fund balances and the issuing of receipts bearing the same receipt numbers may result into errors and irregularities. Management explained that controls were to be reviewed to ensure that the error rate is lowered.

I have advised management to ensure that all postings to the members' accounts are periodically reviewed and to ensure that receipts are identified with unique receipt numbers.

### 5.5 Contributions not credited

As at 30th June 2013, the fund had contributions for members amounting to UGX.911 whose details had been obtained and the upload process initiated with only approval pending for the amounts to be credited on the members' accounts. Consequently the members' accounts were not fairly stated. Management attributed this to missing schedules and staff manpower shortages but explained that the backlog had been progressively cleared, with a balance of UGX.79 million pending.

I have advised management to ensure that all contributions in the 'pending approval' category are reviewed and posted to the members' accounts.

### 5.6 Long outstanding rent receivables

As at 30th June 2013, there were rent receivable balances of UGX.1.1 billion (Workers House – UGX.0.6 billion and Social Security House – UGX.0.5 billion) that had been outstanding for over 180 days. Further analysis revealed that these were composed of amounts due from private and government entities of UGX 0.39 billion and UGX 0.75 billion respectively. The Fund made provisions for doubtful debtors of UGX 0.45 billion and UGX 0.37 billion in the financial statements in relation to the workers house and the Social Security House respectively. There is a risk of financial loss to the Fund through uncollected rent

I have advised management to continuously follow the outstanding debtors to ensure all rent arrears are collected.

### 5.7 Security deposit not collected from tenants

The tenancy agreements between the Fund and its tenants requires the Fund to collect security deposit equivalent to one month's rent which was meant to cover repair costs in the event of damage to the premises and/or fixtures by the tenant. However, the Fund did not collect the said deposits in the year under review. The Fund risks incurring losses in repairing damages which ordinarily would have been covered by the security deposits. Management explained that it had begun enforcing the clause and as a result 27 tenants had obliged and paid the security deposits and faulted the Government tenants who occupy 76% of space but do not pay Security deposits.

I have advised management to enforce the collection of security deposits from all tenants as provided for in the tenancy agreements.

### 5.8 Lack of limits for individual phone costs chargeable to the Fund

It was noted that phone bills for entitled officers are charged to the Fund in full without assessing the extent of non-business related calls. There is a risk of financial loss to the Fund to the extent of the personal call costs being charged as business related costs. Management explained that it was to review the phone usage policy, and stated that the Fund had already established limits for prepaid users. I await the outcome of the review process of the phone usage policy.

### 5.9 Weakness in the procurement and disposal process

A review of the procurement and disposal processes at the Fund revealed the following;

- There was no signed contract for the security services being offered by Saracen. A loss could be occasioned to the Fund in future if disputes arose between the Fund and Saracen.

  Management explained that following terror threats, Uganda Police offered the Very Important Persons Protection Unit (VIPPU) protection to the Fund and Saracen were temporarily engaged pending Police's commitment on the numbers to be committed to NSSF protection. Management further stated that conclusion of the procurement process was expected by February 2014.
- The Fund disposed of a plot of land at UGX.650 million had been purchased at the same amount and had a carrying value of UGX.705 million resulting into a loss on disposal of UGX 56 million because it lacked an access road. There was no evidence to indicate that the Fund performed a cost benefit analysis of attempting to gain an access road to the property and the impact thereof on the value of the property.

  Management explained that the disposal of land followed due process and the transfer was signed off by the Board Chairman after confirming that the land had no access.
- The board appointed two Board Advisors during the year but there was no evidence that a proper procurement process was followed during recruitment. Audit was only provided with the curriculum vitae of the two Board Advisers.

I have advised the management of the Fund to ensure that contracts are signed for all service providers and to develop policies and procedures for the appointment of Board Advisors.

## 5.10 Discrepancies in Lubowa land that require urgent attention

The fund owns a piece of land measuring 563 Acres sat Lubowa but the following were noted arising from the survey done by Geomaps who were engaged by the fund to verify the boundaries of this land;

- A total of 4.764 acres on Plot 1058 block 269 belonging to the Fund had been encroached on with one pillar at one end missing.
- Plot 274, block 269 and Plot 1322 block 269 had their pillars erected beyond the correct boundaries indicating that NSSF had encroached on the adjacent plots by 1.752 acres 8.283 acres, respectively.

The Fund risks losing its land to the encroachers and conversely, the Fund may be sued for encroachment on other people's land.

The management of the Fund explained that they had already filed a High Court suit seeking a court order to evict the encroachers and the case was pending hearing in the Land Division of the High Court. Another case was yet to be filed against another encroacher. They further stated that the Ministry of Lands reviewed the Geomaps report and advised that the Funds' Pillars are within boundary and not encroaching on any land.

I have advised management of the Fund to act on the recommendations made by Geomaps in solving the boundary issues concerning the land at Lubowa.

## 5.11 Dealing with service providers with contributions arrears

Soleh Boneh International (SBI) and Saracen have contributions in arrears which have not been settled yet these are service providers of the Fund. Dealing with service providers who are not complying with the NSSF Act is indicative of laxity in enforcing compliance and encourages non-compliance.

Management explained that Saracen had agreed with the Fund on a payment plan where NSSF applied invoice payments to the arrears while SBI was at the time under compliance audit review.

I have advised the Fund management to enforce the recovery of the arrears from existing suppliers and to ensure that all potential suppliers are subjected to compliance reviews before being engaged.

## 5.12 Lack of a data classification policy

NSSF does not have a data classification policy and at the very minimum a policy statement on it in the security policy. If data is not classified, important data might not be accorded the right amount of controls to ensure that it is not illegally accessed. Management noted the anomaly and pledged to include it in the Fund's security implementation road map to be implemented by the Risk department.

I have advised the management to hasten the development of a data classification policy which should be communicated and implemented appropriately.

## B. COMPLIANCE ISSUES

## 5.13 Lack of detailed risk analysis of employers for compliance audit

The Fund lacked documented policy/guidelines to be followed by the Compliance unit and the branches while determining employers to be audited. The Compliance Officers in the Branches visited were only aware of the internal factors considered in selection of employers. In the absence of the documented policy/guidelines, the selection of employers for audit may be haphazard and inconsistent at the branches.

Management pledged to streamline and update the Commercial Procedures manual guide with all the external information sources used and also keep on improving the processes.

I have advised management to institute formal risk assessment policy/guidelines detailing all the risk factors that the Fund needs to consider during the selection of employers to be audited.

## 5.14 Lack of annual plans for compliance audits

The Compliance unit had no detailed annual plans to guide compliance audits. Plans were usually done on quarterly and adhoc basis. The branches independently determined which employers to audit, with minimal involvement of the Head Office with exception of those predefined employers where the Head Office is required to be involved by policy. In the circumstances there is no clear road map of which audits are to be carried out each financial year.

I have advised the Fund management to develop annual audit plans for the intended compliance audits of employers.

## 5.15 Lack of oversight on the activities of the Compliance Unit

There was no direct oversight exercised by those charged with governance over the activities of the Compliance Unit. For example, there is no committee of the Board of Directors that comprehensively discusses the role and activities of the Compliance unit, discusses and approves the work plan for each financial year, and monitors the progress and results of the audits done by the unit. Consequently, neither is there a sense of accountability by the Compliance Unit nor anyone to provide it with a sense of direction.

I advised that the Board of Directors puts in place measures to enable a comprehensively exercise of oversight over the work of the Compliance Unit.

## 5.16 Inadequate documentation and review of compliance audit files

**a)** There were no documented audit programs detailing the procedures to be executed by staff while in the field. In addition, there were no adequate working papers on the audit files to evidence the procedures executed, results of the procedures and the conclusions reached. Thus the compliance audit reports issued were not supported by sufficient appropriate audit documentation. In absence of appropriate sufficient documentation, the validity of the audit reports and conclusions reached could easily be challenged and, errors and irregularities might not be timely prevented or detected and corrected by the review process.

**b)** It was also noted that in most instances field staff documentation was not adequately reviewed and not cross-referenced to the audit report. For instance, the reports that audit reviewed had errors and inconsistencies ranging from arithmetical inaccuracies while others did not indicate interest due. For example in report for Munyonyo Commonwealth Resort dated 5th April 2012, outstanding contributions of UGX.193,284,515 were reported but the re-computation revealed that the figure total was actually UGX.202,229,700. This could result into issuing audit reports with wrong assessments.

Management explained that all audits above the threshold of UGX.500M are reviewed at Head Office by both the Compliance Manager and by the Head of Commercial before finalization including a review of the scanned source documents as a quality control measure.

I have advised management to develop standardized audit programs and have them approved by senior management for use during the audit field work and to ensure that minimum review requirements are set to ensure that the work done and reports are authenticated.

## 5.17 Formal criteria for assessing employer's penalty waiver requests

In accordance with Section 14 (2), the Managing Director may limit the whole or part of any penalty under this section subject to such conditions as he or she may determine. However, there is no policy that defines the "conditions" under which penalties may be waived. Additionally, there are no formal criteria followed by Branch Managers and Compliance Relationship Managers in recommending employer's waiver requests. The lack of the above could result in unauthorized waivers and/or irregularities.

Management acknowledged that there was no specific policy on waivers but a draft was being finalized for approval. Nevertheless, NSSF was routinely waiving penalties for all employers who fully paid up their arrears regardless of the amount of the penalties involved. I have advised the Fund management to put in place a policy stipulating the conditions under which penalties may be waived as well as the extent of the amounts to be waived.

## 5.18 Waiver of special contributions and adjustments on assessments

It was noted that the Fund waived special contributions for expatriates working for SBI, Speke Group of Companies and Munyoyo Commonwealth Resort Ltd totaling to UGX.631,119,459 but there was no evidence that exemptions had been granted for standard/special contributions for the expatriates.

The absence of evidence on file of exemptions granted to SBI, Speke Group of Companies and Munyonyo for standard/special contributions for expatriates could be an indication that the waivers were irregularly granted. I have advised the Fund management to ensure that the waiving of standard or special contributions be controlled and the above waivers to be revisited for possible recoveries. In addition the final assessments and changes thereof should always be adequately supported and documentation filed.

## 5.19 Follow up of prior year audit recommendations

A review of the status of implementation of prior year's audit recommendations revealed that some of them had not been implemented, as shown in the following table. This is indicative of management's attitude towards the relevance of the audit function.

| No. | Audit Issue | Status of Implementation |
|---|---|---|
| 1 | Unallocated Members' Contributions - UGX. 24.6 billion | Still obtaining. In the period under review the same was pointed out. |
| 2 | Non-compliance with the Bidding Process Regarding the Disposal of the Mbuya Property | No repeat of the anomaly. |
| 3 | Lack of timely reconciliations for the Housing Finance Bank Limited Staff Mortgages | Implemented. The staff mortgage balance was adequately reconciled in the current year. |
| 4 | Use of Inappropriate Foreign Exchange Rates for Income | Same was noted in the current year where the System does not revalue all foreign balances. |
| 5 | Non re-assessment of useful lives of Assets | Implemented. The fund hired a service provider to reassess the useful lives of its assets |
| 6 | Failure to undertake a comprehensive post implementation review after cut-over period | Implemented. The fund contracted a service provider to do the post implementation review. |
| 7 | Pay As You Earn (PAYE) due on airtime benefit | Not implemented. There was no evidence to demonstrate that the airtime used by employees was entirely for business purpose. |
| 8 | Non-existence of Transfer Pricing Documentation | Not implemented. The fund still does not have a transfer pricing document. |

I have advised management to implement the audit recommendations so as to ensure enhanced accountability and better stewardship.

**NATIONAL SOCIAL SECURITY FUND**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 30 JUNE 2013**

| | Note | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | 5 | 373,847,806 | 264,457,635 |
| Rental income | 6 | 8,259,951 | 8,276,064 |
| Dividend income | 7 | 7,974,425 | 3,662,420 |
| **Total revenue** | | 390,082,182 | 276,396,119 |
| **Other income/(loss)** | | | |
| Other operating income | 8 | 57,219,215 | 5,942,111 |
| Fair value gains/(losses) from equity investments | 18 | 33,725,285 | (17,078,324) |
| | | 90,944,500 | (11,136,213) |
| **Expenditure** | | | |
| Administrative expenses | 9 | (43,502,898) | (35,269,737) |
| Other operating expenses | 10 | (28,260,559) | (8,862,356) |
| Amortisation of prepaid land lease rentals | | - | (14,576) |
| Amortisation of intangible assets | 26 | (1,666,223) | (1,497,087) |
| Depreciation of property and equipment | 27 | (1,939,965) | (5,495,845) |
| Interest payable on Alcon provision | 30 | - | (2,486,373) |
| **Total expenditure** | | (75,369,645) | (53,625,974) |
| Share of results from Associates | 22 | 7,259,438 | 6,714,531 |
| **Surplus from operations** | | 412,916,475 | 218,348,463 |
| Fair value gains on investment properties | 25 | - | 57,951,140 |
| **Surplus before tax** | 11 | 412,916,475 | 276,299,603 |
| Income tax expense | 12(a) | (69,616,573) | (37,462,230) |
| **Surplus for the year** | | **343,299,902** | **238,837,373** |
| **Other comprehensive income, net of tax** | | | |
| Share of results from Associates | 22 | 1,955,430 | - |
| Income tax effect | | (586,629) | - |
| | | 1,368,801 | - |
| **Total comprehensive income, net of tax** | | 344,668,703 | 238,837,373 |

**NATIONAL SOCIAL SECURITY FUND**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2013**

| | Note | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 13 | 15,376,671 | 17,414,010 |
| Deposits with commercial banks | 14 | 731,954,095 | 686,151,323 |
| Equity securities held-for-trading | 15 | 35,313,327 | 20,870,429 |
| Trade and other receivables | 16 | 16,244,417 | 22,592,219 |
| Investments in securities held-to-maturity | 17 | 1,990,125,710 | 1,386,294,688 |
| Equity investments at fair value through profit or loss | 18 | 153,851,580 | 78,291,687 |
| Loans and advances | 19 | 45,299,537 | 62,044,823 |
| Inventories | 20 | 4,626 | 7,692 |
| Non-current assets held for sale | 21 | 256,290 | 256,290 |
| Investments in associates | 22 | 74,720,713 | 68,237,191 |
| Other investments | 23 | - | 10,300 |
| Capital work-in-progress | 24 | 235,676,401 | - |
| Investment properties | 25 | 169,905,326 | 385,582,588 |
| Intangible assets | 26 | 8,414,853 | 10,068,810 |
| Property and equipment | 27 | 4,026,152 | 5,142,081 |
| **Total Assets** | | 3,481,169,698 | 2,742,964,131 |
| **LIABILITIES** | | | |
| Withholding tax payable | 28 | 901,895 | 901,895 |
| Other payables | 29 | 20,197,871 | 17,353,026 |
| Provisions for litigation | 30 | 9,239,702 | 41,590,470 |
| | | 30,339,468 | 59,845,391 |
| **MEMBERS' FUNDS AND RESERVES** | | | |
| Accumulated members' funds | 31 | 3,322,576,227 | 2,621,222,866 |
| Reserve account | 32 | 36,829,033 | 34,328,993 |
| Accumulated surplus/(deficit) | | 90,056,169 | 27,566,881 |
| Share of associates revaluation reserve | | 1,368,801 | - |
| | | 3,450,830,230 | 2,683,118,740 |
| **Total members' funds, reserves and liabilities** | | 3,481,169,698 | 2,742,964,131 |

The financial statements were approved for issue by the Board of Directors on 21 December 2013 and signed on its behalf by:

Mr. Ivan Kyayonka
**Chairman:**

Mr. Richard Byarugaba
**Managing Director:**

Mrs. Sarah Walusimbi
**Director:**

Mr. Mark Obia
**Ag. Corporation Secretary:**

**NATIONAL SOCIAL SECURITY FUND**
**STATEMENT OF CHANGES IN RESERVES**
**FOR THE YEAR ENDED 30 JUNE 2013**

| | Reserve account Ushs 000 | Accumulated members' funds Ushs 000 | Accumulated (deficit)/Surplus Ushs 000 | Share of Associates Reserve Ushs 000 | Total Ushs 000 |
|---|---|---|---|---|---|
| **At 1 July 2011** | **7,843,650** | **2,071,024,274** | **(14,038,154)** | **-** | **2,064,829,770** |
| Total comprehensive income for the year | - | - | 238,837,373 | - | 238,837,373 |
| Special contributions, fines and penalties received (Note 33 (a)) | 1,892,843 | - | (267,561) | - | 1,625,282 |
| Members' contributions received (Note 32) | - | 472,861,120 | - | - | 472,861,120 |
| Benefits paid to members (Note 32) | - | (101,376,498) | - | - | (101,376,498) |
| Interest recovered on arrears (Note 33 (b)) | - | 6,341,693 | - | - | 6,341,693 |
| Transfer of unallocated members' contributions | 24,592,500 | (24,592,500) | - | - | - |
| Interest paid to members (Note 32) | - | 196,964,777 | (196,964,777) | - | - |
| **At 30 June 2012** | **34,328,993** | **2,621,222,866** | **27,566,881** | **-** | **2,683,118,740** |
| Total comprehensive income for the year | - | - | 343,299,902 | - | 343,299,902 |
| Share of Associates' results | - | - | 586,629 | 1,368,801 | 1,955,430 |
| Special contributions, fines and penalties received (Note 33 (a)) | 2,500,040 | - | - | - | 2,500,040 |
| Members' contributions received (Note 32) | - | 552,683,614 | - | - | 552,683,614 |
| Benefits paid to members (Note 32) | - | (140,051,845) | - | - | (140,051,845) |
| interest recovered on arrears (Note 33 (b) | - | 7,324,349 | - | - | 7,324,349 |
| Interest paid to members (Note 32) | - | 281,397,243 | (281,397,243) | - | - |
| **At 30 June 2013** | **36,829,033** | **3,322,576,227** | **90,056,169** | **1,368,801** | **3,450,830,230** |

**NATIONAL SOCIAL SECURITY FUND**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 2013**

| | Note | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| **Net cash used in operating activities** | 33 | **(466,081,095)** | **(264,760,693)** |
| **Investing activities** | | | |
| Purchase of property and equipment | | (1,530,206) | (1,851,403) |
| Purchase of intangible asset | | (12,266) | (1,467,811) |
| Additions to investment properties | | (17,159,139) | (13,001,558) |
| Purchase of equity investments | | (37,620,100) | (1,346,846) |
| Purchase of held-for-trading equity securities | | (14,442,898) | (20,870,429) |
| Bonus shares issued | | (3,596,850) | (19,249,336) |
| Proceeds from disposal of property and equipment | | 650,000 | 1,720,825 |
| Proceeds from disposal of investment property | | - | 3,421,500 |
| Payment for capital work-in-progress | | - | - |
| Increase/(Decrease) in loans and advances | | 16,745,286 | (3,146,617) |
| **Net cash flows used in investing activities** | | **(56,966,173)** | **(55,791,675)** |
| **Financing activities** | | | |
| Dividends received | | 244,088 | 1,660,696 |
| Benefits paid out to members | | (140,051,845) | (101,376,498) |
| Contributions received from members | | 552,683,614 | 472,861,120 |
| Interest recovered on arrears | | 7,324,349 | 6,341,693 |
| Special contributions and fines & penalties | | 2,500,040 | 1,625,282 |
| **Net cash flows from financing activities** | | **429,700,246** | **381,112,293** |
| (Decrease)/Increase in cash and cash equivalents | | (100,347,022) | 60,559,925 |
| Cash and cash equivalents at 1 July | | 446,199,959 | 385,640,034 |
| **Cash and cash equivalents at 30 June** | 39 | 345,852,937 | 446,199,959 |

## 1. FUND INFORMATION

National Social Security Fund (the "Fund") is a corporate body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act (Cap 222).

Government is currently implementing policy reforms whose objective is a liberalised and regulated retirement benefits sector. These reforms have entailed the enactment of the Retirement Benefits Regulatory Authority Act 2011, which came into force in September 2011. The new law establishes the Retirement Benefits Authority (RBA) whose function is to regulate all retirement schemes including NSSF, and grants a grace period of one year within which the Fund must obtain a licence from RBA.

Government has also tabled the Retirement Benefits Sector Liberalisation Bill 2011 before Parliament whose objective among others, is to repeal the National Social Security Fund Act. There is a Task Force that was created to review the Bill. The Task Force is recommending among an amendment to, rather than a repeal of the NSSF Act. There are other recommendations that will ensure that NSSF continues as a viable entity. Nevertheless, management is drawing a strategic road map to enable the Fund transit from a statutory corporation created by the NSSF Act to a trust registered and licensed by RBA and competing in a liberalised environment.

The Fund shall abide by the licensing and minimum capital thresholds of the RBA when communicated. The Fund is also listed in Class 1 of the Public Enterprises Reform and Divestiture Act as an entity in which the Government of Uganda (GoU) shall retain 100% control and/or ownership. Consequently management's expectation is that the Government will underwrite the capital requirements for licensing set by the regulator. In the alternative, the Fund shall mobilise sufficient funds to ensure its continued existence in the new liberalised and regulated framework.

The Board of Directors assessed the implications of the above developments and determined that they do not have an effect on the Fund's going concern in the foreseeable future.

## 2. BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Ugandan National Social Security Act (Cap 222).

The financial statements have been prepared on a historical cost basis except for some financial assets (equity investments held-for-trading and designated at fair value through profit or loss), and investment properties that have been measured at fair value. The financial statements are presented in Uganda shillings (Ushs), which is the Fund's functional currency, and all values are rounded off to the nearest thousand (Ushs 000), except when otherwise indicated.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all periods presented in the financial statements.

### (a) Investment in Associates and Joint Ventures

The Fund's investments in its associates and joint ventures are accounted for using the equity method. An associate is an entity in which the Fund has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds 20 to 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Fund has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Under the equity method, the investment in the associates and joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Fund's share of net assets of the associate.

The statement of comprehensive income reflects the share of the results of operations of the associate. The share of the results of an associate is shown on the face of the statement of comprehensive income. These are the results attributable to equity holders of the associate and therefore the results after tax and non-controlling interests in the subsidiaries of the associate. Where necessary, adjustments are made to bring the accounting policies of the associates in line with those of the Fund.

### (b) Foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Uganda Shillings at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Uganda Shillings at the date when the fair value was determined. Foreign currency gains and losses arising from translation are recognised in the statement of comprehensive income.

### (c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Interest income*

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

*(ii) Dividends*

Dividend income is recognised when the right to receive dividends is established.

*(iii) Rental income*

Rental income from investment properties is recognized in the statement of comprehensive on the straight line basis over the term of the lease.

*(iv) Other income*

Other income comprises gains less losses related to trading assets and liabilities, and includes gains from disposal of Fund assets and all realised and unrealised foreign exchange differences.

**(d) Financial instruments – initial recognition and subsequent measurement**

**i) Financial assets**

***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Fund's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, deposits with commercial banks, investments in government and corporate bonds and equity investments.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in surplus or deficit.

*Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

statement of comprehensive income. The losses arising from impairment are recognised in impairment losses in the statement of comprehensive income.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income.

*Other receivables*

Other receivables are carried at amortised cost which approximates the original invoice amount less provision made for impairment losses. An allowance for impairment of other receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables.

***Derecognition***

A financial asset (or, where applicable a part of a financial asset or part of a fund of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

**ii) Impairment of financial assets**

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individualy significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impaiment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in surplus or deficit. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

**iii) Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings measured at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of loans and borrowings, directly attributable transaction costs.

The Fund's financial liabilities include trade and other payables.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

*Trade payables*

Trade payables include trade payables and are subsequently measured at amortised cost. Gains and losses on derecognition and amortisation are recognised in surplus or deficit.

*Other accounts payable*

Other accounts payable are carried at amortised cost, which approximates the consideration to be paid in the future for goods and services received.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### (e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (f) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction of transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4 and 18.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (g) Property and equipment, and intangible assets

Property and equipment, and intangible assets are stated at cost less accumulated depreciation or amortisation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund and its cost can be measured reliably. The carrying value of the replaced part is de-recognized. The cost of day to day servicing of the property and equipment is recognized in surplus or deficit as incurred.

Depreciation is recognized in surplus or deficit and calculated to write off the cost of the property and equipment on a straight line basis over the expected useful lives of the assets concerned, and intangible assets are also on straight line basis. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows: -

| | Percentage |
|---|---|
| Buildings | 5% |
| Machinery | 20 % |
| Motor vehicles | 20 % |
| Furniture and equipment | 12.5 % |
| Computer equipment | 25% |
| Intangible assets (Software) | 10% |

Management and directors review the depreciation methods, residual value and useful life of an asset at the year end and any change considered to be appropriate is recorded in surplus or deficit as a change in estimates.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognized net within other income in profit or loss.

### (h) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

fair values of investment properties are included in surplus or deficit in the period in which they arise.

Fair values are evaluated annually by an accredited external, independent valuer.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. When the use of property changes from owner occupied to investment property, the property is re-measured at fair value and reclassified as investment property. Any gain arising on revaluation is recognized through other comprehensive income. Any loss arising on revaluation is recognized through the surplus or deficit.

**(i) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in-first out principle and includes the expenditure incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses or the replacement cost as appropriate.

**(j) Impairment of non-financial assets**

The carrying amounts of the Fund's non-financial assets other than investment properties, and inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If such condition exists, the asset's recoverable amount is estimated and an impairment loss recognised in surplus or deficit whenever the carrying amount of an asset exceeds its recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount that would have been determined net of depreciation or amortization if no impairment loss was recognized.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (k) Employee benefits

*(i) Short-term benefits*

Short term employee benefit obligations are measured on an un-discounted basis and are expensed as the related service is performed. A liability is recognized for an amount expected to be paid under short term bonus or profit sharing plans, if the Fund has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation by the employee and the obligations can be estimated reliably.

*(ii) Defined contribution plan*

Employees of the Fund contribute to the defined contribution pension plan. The contribution payable to the plan is in proportion to the services rendered to the Fund by the employees and is recorded as an expense under 'staff costs'. Unpaid contributions are recorded as a liability. The Fund also contributes to the plan on behalf of the employees. Contributions to the plan and NSSF are charged to surplus or deficit when incurred.

### (l) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Fund expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

### (m) Income tax

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised through other comprehensive income or equity, in which case it is recognised through other comprehensive income or equity.

Current tax is provided for on the surplus for the year adjusted in accordance with the Ugandan Income Tax Act. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided for using the liability method, for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. In respect of temporary differences

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax is recognized as an expense/(income), except to the extent that the tax arises from a transaction which is recognized directly in other comprehensive income or equity. In this case the tax is also recognized in other comprehensive income or equity.

Revenue, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or rendering of services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or account payables in the statement of financial position.

### (n) Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost subsequent to initial recognition. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the reporting date and include cash and balances with banks, treasury bills and other eligible bills net of bank overdrafts.

### (o) Capital work-in-progress

The ongoing construction/installation of capital projects are recorded at the cost to date or valuation and are only transferred into the relevant assets categories once completed and commissioned. No depreciation is computed on capital work-in-progress as these assets are not yet available for use. However, an expected impairment loss on capital work-in-progress is recognized immediately in surplus or deficit.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (p) Members' funds

(i) *Contributions from members*

Contributions from employees remitted by the employers are recognized on a cash basis. Contributions due but not yet received at the end of the financial year are not accrued but accounted for and recognized in subsequent years when received.

(ii) *Benefit payments to members*

Benefits to members are accounted for on a cash basis. Benefit payments made but not collected by members are written back in the cash book and no liability thereof recognized in the financial statements.

*(iii)* *Interest payments to members*

Interest payable on member's accumulated contributions is calculated based on the opening accumulated contributions (standard contribution plus interest) less benefits paid during the year. The effective interest rate used to compute interest accrued to members as approved by the Minister of Finance, Planning & Economic Development in accordance with Section 35 (1) and (2) of the National Social Security Fund Act.

### (q) Reserve account

The reserve account is credited with contributions that cannot be allocated to members, special contributions by non-eligible employees and amounts recovered in form of fines and penalties from employers that fail to remit members funds as stipulated in the National Social Security Fund Act. The special contributions are credited directly to the reserve account while the fines and penalties are recognised through the statement of comprehensive income and then appropriated from the accumulated surplus/deficit to the reserve account. Transfers from the reserve account require the approval of the Minister of Finance in accordance with the NSSF Act.

### (r) Operating leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Operating lease payments are recognised as an expense in the surplus or deficit on a straight line basis over the lease term.

### (s) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from changes in standards and interpretations and improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Fund except for the amendments in IAS 24 which were early adopted by the Fund in 2011.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amendment)* – 1 July 2011
- IAS 24 Related party disclosures (Amendment) – 1 January 2011
- IFRS 7 Financial *Instruments: Disclosures (Amendment)* – 1 July 2011
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment) – 1 January 2011
- Improvements to IFRSs (issued in 2011)

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the fund.

- IAS 1 Financial statement presentation (Amendment) – 1 January 2012
- IAS 12 Income taxes (Amendment) – 1 January 2012
- Improvements to IFRSs (issued in 2011)

The adoption of the standards or interpretations is described below:

**IAS 1 *Financial statement presentation (Amendment)***

The amendment is effective for annual periods beginning on or after 1 January 2012 and requires that items of other comprehensive income be grouped in Items that would be reclassified to profit or loss at a future point (for example, upon derecognition or settlement) and items that will never be reclassified. This amendment only effects the presentation in the financial statements and had no impact on the Fund's financial position or performance

**IAS 12 *Income taxes (Amendment)***

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. Furthemore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment will have no impact on the Fund after initial application.

***Standards issued but not yet effective***

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt those standards when they become effective. The Fund expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Fund's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Fund is still assessing the possible impact.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**IAS 19 *Post employee benefits (Amendment)***

The amendments are effective for annual periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses are recognised in OCI with no subsequent recycling to profit or loss.
- Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

**IAS 27 *Separate Financial Statements* (as revised in 2011)**

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Fund does not present separate financial statements. The amendment becomes effective for annual periods beginningon or after 1 January 2013.

**IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)**

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

***IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities***

The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

***IFRS 1 time Adoption of International Financial Reporting Standards (Amendment) - Government Loans***

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has added an exception to the retrospective application of IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement, as applicable) and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.

The exception will give first-time adopters relief from retrospective measurement of government loans with a below market rate of interest. As a result of not applying IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively, first-time adopters will not have to recognise the corresponding benefit of a below-market rate government loan as a government grant.

***IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS7***

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

**IFRS 9 for financial assets was first published in November 2009 and was updated in October 2010 to include financial liabilities.**

These pronouncements initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015.

IFRS 9 is being developed in phases with a view to replacing IAS 39 in its entirety.

Phase 1 of IFRS 9 addressed the classification and measurement of financial assets. All financial assets are measured at fair value at initial recognition.

Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortised cost if:

- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

Phase 2 of IFRS 9 addressed the classification and measurement of financial liabilities. All financial assets are measured at fair value at initial recognition.

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

The Board's work on the other phases is ongoing, and includes impairment of financial instruments and hedge accounting.

The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Fund's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Fund is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Fund at the date of adoption, it is not practical to quantify the effect.

**IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of Interest in Other Entities.***

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new and broader definition of control that applies to all entities. It does not change consolidation procedures but rather whether an entity is consolidated. The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a Group.

IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses some of the terms that were used in IAS 31 but with different meanings which may create some confusion as to whether there are significant changes. IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement compared to the legal form in IAS 31. IFRS 11 uses the principle of control in IFRS 10 to determine joint control which may change whether joint control exists. IFRS 11 addresses only two forms of joint arrangements; joint operations where the entity recognises its assets, liabilities, revenues and expenses and/or its relative share of those items and joint ventures which is accounted for on the equity method (no more proportional consolidation).

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IFRS 12 includes all the disclosures that were previously required relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities as well as extensive qualitative and quantitative new disclosures. The new disclosure requirements are to help the users of financial statements understand:

- The effects of an entity's interests in other entities on its financial position, financial performance and cash flows;
- The nature of, and the risks associated with, the entity's interest in other entities; and
- An entity is now required to disclose the judgements made to determine whether it controls another entity.

The Fund will need to consider the new definition of control to determine which entities are controlled or jointly controlled and then to account for them under the new standards. IFRS 10, 11 and 12 will be effective for the Fund 1 July 2013.

**IFRS 10 *Consolidated Financial Statements;* IFRS 12 *Disclosure of Interest in Other Entities;* IAS 27 *Separate Financial Statements – Investment entities (Amendment)***

The amendment is effective for annual periods beginning on or after 1 January 2014. The investment entities amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity.

The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which must be consolidated (investments in subsidiaries) or accounted for using the equity method (investments in associates or joint ventures).

**IFRS 13 *Fair Value Measurement***

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e., an 'exit price'). New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

The Fund will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Fund from 1 July 2013.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine**

This new interpretation provides guidance on how to account for stripping cost in the development phase of a surface mine. If the benefit from the stripping activity will be realised in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognises these costs as a non-current asset, only if certain criteria are met. This is referred to as the 'stripping activity asset'. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and depreciated on a unit-of production basis unless another method is more appropriate.

After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortisation and less impairment losses, The interpretation is effective for annual periods beginning on or after 1 January 2013.

**IFRIC 21, Levies**

This new interpretation clarifies the accounting for levies imposed by governments by the entity that is paying the levy. The scope of the interpretation is broad and covers all levies, except outflows that are in the scope of IAS 12 and penalties for breaches of legislation.

The amendment is effective for annual periods beginning on or after 1 January 2014.

Improvements to IFRSs – 2009 – 2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013)

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments):
  - Repeated application of IFRS 1 - clarifies that an entity that has stopped applying IFRS may choose to either:

    (i) Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or

    (ii) Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. If the entity re-applies IFRS 1 or applies IAS 8, it must disclose the reasons why it previously stopped applying IFRS and subsequently resumed reporting in accordance with IFRS.
  - Borrowing costs - clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23, including those incurred on qualifying assets under construction.
- IAS 1 Presentation of Financial Statements (Amendments). The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

**3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

- IAS 16 Property, Plant and Equipment (Amendment). The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments: Presentation. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
- IAS 34 Interim Financial Reporting The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

**Implementation project**

In addition to the major IFRS projects, the IASB also has a number of items on its work plan dealing with implementation issues. These include narrow scope amendments and interpretations. Below is a listing of the current implementation projects based on the IASB's work plan as at 21 June 2013, as well as those that have been completed since the March 2013 edition of the pocketbook guide.

**IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments)**

The amendments relate to the disclosure in respect of fair value less costs of disposal. The amendments are intended to clarify the IASB's original intentions when amendments were made to IAS 36 as a result of the issuance of IFRS 13 Fair Value Measurement.

The amendments also require additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal and the discount rates that have been used when the recoverable amount.

The amendment is effective for annual periods beginning on or after 1 January 2014.

**IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments)**

The IASB amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. Novation indicates that parties to a contract agree to replace their original counterparty with a new one.

The amendment is effective for annual periods beginning on or after 1 January 2014.

## 4. DETERMINATION OF FAIR VALUE

The fair value of both financial/non-financial assets and fair values have been determined for measurement and/or disclosure purposes based on the methods below.

*(i) Investment properties*

The Fund uses an external independent valuation company with recognized professional qualification experience and values the Fund's investment properties after every three years (previously on an annual basis). The fair values are based on the market conditions being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and seller at an arm's length transaction. In the absence of an active price in an active market, the values are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. The yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

*(ii) Investment in debt and equity securities*

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available for sale is determined by reference to their quoted bid price at the reporting date. The fair value of held to maturity investments is determined for disclosure purposes only.

*(iii) Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of trade and other receivables is determined at initial recognition and for disclosure purposes only.

## 5. INTEREST INCOME

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Interest income on short term deposits with banks | 118,284,715 | 109,119,230 |
| Interest income on government bonds: held-to-maturity | 239,535,558 | 139,375,496 |
| Interest income on treasury bills: held-to-maturity | - | 451,089 |
| Interest income on call deposits made by fund managers | 17,233 | 196,416 |
| Interest income on corporate bonds: held-to-maturity | 7,707,376 | 6,832,600 |
| Interest income on loans measured at amortized cost | 8,302,924 | 8,482,804 |
| | 373,847,806 | 264,457,635 |

## 6. RENTAL INCOME

| | | |
|---|---|---|
| Workers' House | 5,955,584 | 5,826,421 |
| Social Security House | 2,097,564 | 2,306,081 |
| Others | 206,803 | 143,562 |
| | 8,259,951 | 8,276,064 |

This relates to rental income earned from investment properties (refer to Note 25) owned by the Fund, and rented out to tenants for commercial purposes. Tenants are charged rental fees based on the square metres occupied at an agreed rental charge as specified in the tenancy agreements.

## 7. DIVIDEND INCOME

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Stanbic Bank Uganda Limited | 1,308,716 | 931,891 |
| Bank of Baroda (Uganda) Limited | 99,913 | 79,930 |
| New Vision Printing and Publishing Company Limited | 525,000 | 450,000 |
| DFCU Limited | 546,996 | 546,996 |
| Safaricom Kenya Public Limited Company | 2,376,547 | 1,624,844 |
| Umeme Limited | 1,975,842 | - |
| Other dividend income earned from fund managers | 1,141,411 | 28,759 |
| | 7,974,425 | 3,662,420 |

## 8. OTHER OPERATING INCOME

| | | |
|---|---|---|
| (Loss)/Gain on disposal of property and equipment | (56,170) | 1,346,305 |
| Gain on disposal of investment property | - | 511,500 |
| Clearance fees | 10,412 | 10,810 |
| Miscellaneous income | 1,054,610 | 294,258 |
| Gains in investments with fund managers | 8,784,073 | - |
| Decrease in provision for bad and doubtful debts | - | 4,112,259 |
| Litigation provisions no longer required | 46,498,160 | 2,506,340 |
| Fines and penalties | - | 267,561 |
| Foreign exchange gain/(loss) | 928,130 | (3,106,922) |

| | | |
|---|---|---|
| | 57,219,215 | 5,942,111 |

## 9. ADMINISTRATIVE EXPENSES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Staff costs (note 9 a) | 28,951,693 | 25,421,993 |
| Staff medical insurance | 839,623 | 875,804 |
| General staff and training expenses | 1,130,788 | 947,174 |
| Advertising & promotion | 3,024,555 | 1,224,378 |
| Audit expenses | 140,400 | 156,355 |
| Bank charges and commission | 8,216 | 29,073 |
| Board expenses | 234,056 | 61,792 |
| Cleaning expenses | 232,435 | 316,910 |
| IT connectivity & internet | 584,221 | 496,024 |
| Directors' allowances | 394,803 | 275,350 |
| Professional fees | 490,518 | 622,287 |
| Legal fees | 3,700,885 | 779,365 |
| Motor vehicle fuel costs, maintenance & repairs | 628,281 | 578,193 |
| Printing & stationery | 454,814 | 320,998 |
| Subscriptions | 245,200 | 256,092 |
| Telephone, fax, telex & post | 428,079 | 401,862 |
| Travel and subsistence costs | 1,504,111 | 1,983,577 |
| Commission & brokerage fees | 231,357 | - |
| URBAA Annual levy | 237,500 | - |
| Other administrative expenses | 41,363 | 522,510 |
| | 43,502,898 | 35,269,737 |

### a) Staff costs

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Leave pay | 351,232 | 397,246 |
| Overtime expenses | 23,465 | 237,675 |
| Salaries and wages | 23,675,535 | 19,415,439 |
| Social security contributions | 2,574,414 | 3,046,669 |
| Defined contribution plan pension cost | 1,797,097 | 1,785,513 |
| Terminal/retirement benefits | 529,950 | 539,451 |
| | 28,951,693 | 25,421,993 |

## 10. OTHER OPERATING EXPENSES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Rent and rates | 3,820,215 | 3,399,425 |
| Electricity and water | 1,350,322 | 618,944 |
| Repairs and maintenance | 4,014,433 | 3,229,379 |
| Insurance | 812,173 | 871,619 |
| Security expenses | 589,576 | 615,584 |
| Research and library expenses | 132,855 | 127,405 |
| Provision for bad debts | 17,540,985 | - |
| | 28,260,559 | 8,862,356 |

## 11. SURPLUS BEFORE TAX

The following items have been charged/(credited) in arriving at the surplus before tax:

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Depreciation of property and equipment (note 27) | 1,939,865 | 5,495,845 |
| Amortization of intangible assets (note 26) | 1,666,223 | 1,497,087 |
| (Loss)/Gain on disposal of property and equipment | (56,170) | 1,346,305 |
| Gain on disposal of investment property | - | 511,500 |
| Auditors' remuneration | 140,400 | 113,565 |
| Directors' emoluments | 394,803 | 275,350 |
| Decrease in provision for legal costs | 46,498,160 | 2,506,340 |
| Provision for interest on Alcon International case | - | 2,486,373 |
| Fair value gains/(losses) from equity instruments | 33,725,285 | (17,078,324) |
| Fair value gains on investment property | - | 57,951,140 |
| Provision for bad and doubtful debts | 17,540,985 | - |
| Unrealised foreign exchange losses | (13,489,586) | 7,333,949 |
| Reversal of impairment loss on trade receivables | - | (4,112,259) |

## 12. TAX

### a) Income tax expense

| | | |
|---|---|---|
| Withholding tax on interest income | 69,616,573 | 37,462,230 |

The tax on the Fund's surplus after interest to member's funds differs from the theoretical amount that would arise using the basic tax rate of 30% as follows:

| | 2013 Ushs 000 | 2011 Ushs 000 |
|---|---|---|
| Surplus for the year before tax | 412,916,475 | 276,299,603 |
| Tax calculated at 30% | 123,874,943 | 82,889,881 |
| Tax effect of expenses not deductible for tax purposes | 27,480,506 | 10,622,768 |
| Tax effect of allowable expenses | (12,122,302) | (18,588,189) |
| Withholding tax deducted at source | (69,616,573) | (37,462,230) |
| | 69,616,573 | 37,462,230 |

## 12. TAX (CONTINUED)

### b) Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2012: 30%).

| | At 1 July 2012 | Movement for the year | At 30 June 2013 |
|---|---|---|---|
| | Ushs 000 | Ushs 000 | Ushs 000 |
| Accelerated tax allowances | 3,177,861 | (403,196) | 2,774,665 |
| Unrealized foreign exchange losses | (1,682,517) | (3,437,656) | (5,120,173) |
| Provision for impairment loss on trade and other receivables | (1,230,652) | (5,262,295) | (6,492,947) |
| Fair value gains on investment properties | 63,994,378 | - | 63,994,378 |
| Fair value changes on equity instruments | 18,812,268 | 10,117,585 | 28,929,853 |
| Tax losses carried forward | (94,832,651) | 942,591 | (93,890,060) |
| **Net deferred tax asset** | (11,761,313) | 1,957,029 | (9,804,284) |

The net deferred tax asset of Ushs 9.8 billion (2011: Ushs 11 billion) has not been recognised in these financial statements due to the uncertainty in recovery of the asset. Despite the Fund making surplus earnings, the Fund obtained a ruling from Uganda Revenue Authority in 2001 advising that interest paid to members is tax deductible. However, as disclosed in Note 35 (b), the Fund received a notice of assessment for corporation tax of Ushs 49.7 billion from Uganda Revenue Authority in which the interest paid to members was disallowed. The Fund objected to the assessment and is yet to receive feedback from URA following its response to the assessment raised. As such, the Fund has maintained its earlier treatment in interest paid to members on the basis of the 2001 communication received from URA until such a time a resolution is reached on the assessment raised by URA.

## 13. CASH AND BANK BALANCES

| | 2013 | 2012 |
|---|---|---|
| | Ushs 000 | Ushs 000 |
| Barclays Bank of Uganda Limited | 691,005 | 491,344 |
| Citibank Uganda Limited | 1,695,422 | 7,293,830 |
| Housing Finance Uganda Limited (Note 34) | 119,085 | 772,805 |
| Stanbic Bank Uganda Limited | 2,529,700 | 5,657,056 |
| Standard Chartered Bank Uganda Limited | 9,160,840 | 2,599,919 |
| Imperial Bank | 16,979 | - |
| Eco Bank | 71,647 | |
| Bank of Africa | 189,705 | - |
| Crane Bank | 36,074 | - |
| Centenary Bank | 146,607 | - |
| DFCU Bank | 200,988 | - |
| United Bank of Africa | 84,892 | - |
| Orient Bank | 198,667 | - |
| Global Trust Bank | 61,763 | - |
| Tropical Bank | 10,370 | - |
| Bank of Baroda | 136,756 | |
| Cash at hand | 26,171 | 599,056 |

| | | |
|---|---|---|
| | 15,376,671 | 17,414,010 |

## 14. DEPOSITS WITH COMMERCIAL BANKS

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| ABC bank | 6,237,304 | - |
| Bank of Africa | - | 19,794,297 |
| Barclays Bank of Uganda Limited | - | 36,007,240 |
| Bank of Baroda Uganda Limited | 135,223,543 | 81,877,348 |
| Bank of India | 1,074,625 | - |
| Cairo International Bank Limited | 10,937,923 | 2,032,477 |
| Global Trust Bank Limited | - | 7,903,300 |
| Crane Bank Limited | 225,291,785 | 217,085,558 |
| DFCU Bank Limited | 99,605,010 | 44,449,523 |
| Diamond Trust Bank Uganda Limited | 18,782,031 | 41,197,447 |
| Housing Finance Bank Limited (Note 34) | 39,122,698 | 31,908,779 |
| Orient Bank Uganda Limited | 63,935,735 | 39,731,995 |
| Stanbic Bank Uganda Limited | - | 3,036,678 |
| Standard Chartered Bank Uganda Limited | 31,721,471 | 52,272,160 |
| Tropical Bank Limited | 22,886,833 | 17,321,491 |
| United Bank of Africa | 12,639,210 | 10,041,164 |
| Equity Bank Uganda Limited | 16,623132 | 34,994,687 |
| FinaBank Uganda Limited | - | 9,264,364 |
| EcoBank Uganda Limited | - | 10,130,690 |
| Imperial Bank Limited | 9,761,977 | 5,079,865 |
| KCB Bank Uganda Limited | 38,110,818 | 22,022,260 |
| | 731,954,095 | 686,151,323 |

**The above is analysed as follows:**

| | | |
|---|---|---|
| Amounts due within three (3) months | 220,860,570 | 329,552,951 |
| Amounts due after three (3) months | 511,093,525 | 356,598,372 |
| | 731,954,095 | 686,151,323 |

The deposits are at amortised cost. The deposits are made for varying periods of between one day and 365 days depending on the cash requirements of the Fund. The weighted average effective interest rate on deposits with commercial banks as at 30 June 2013 was 17% (2012:10%)

## 15. EQUITY SECURITIES HELD-FOR-TRADING

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Uganda Securities Exchange | 6,094,008 | 4,409,018 |
| Nairobi Stock Exchange | 25,965,249 | 15,170,547 |
| Dar es Salaam Stock Exchange | 3,254,070 | 1,290,864 |
| | 35,313,327 | 20,870,429 |

The investments in securities held-for-trading are equity investments managed by the Fund's investment managers, Stanlib and Pinebridge Investments. The investment managers have the mandate to make investments at their discretion but in compliance with the Fund's investment policy.

## 16. TRADE AND OTHER RECEIVABLES

| | 2013<br>Ushs 000 | 2012<br>Ushs 000 |
|---|---|---|
| Prepayments | 878,853 | 1,102,658 |
| Staff advances | 838,930 | 952,733 |
| Withholding tax recoverable | - | 3,425,512 |
| Trade receivables | 7,926,082 | 12,956,877 |
| Contributions receivable | 1,021,943 | 1,021,943 |
| Rent receivable | 2,765,223 | 1,780,596 |
| VAT recoverable | 1,099,556 | 3,611,728 |
| Cash advances to investment managers | 1,735,733 | 1,842,345 |
| Dividends receivable | 6,390,908 | - |
| Provisions for impairment loss | (6,412,811) | (4,102,173) |
| | 16,244,417 | 22,592,219 |

**Provisions for impairment loss is analysed as follows:-**

| | | |
|---|---|---|
| **As at 1 July** | 4,102,173 | 8,214,432 |
| Provisions created during the year | 2,310,638 | - |
| Provisions no longer required | - | (4,112,259) |
| **As at 30 June** | 6,412,811 | 4,102,173 |

**Charge/(Credit) to the statement of comprehensive income:**

| | | |
|---|---|---|
| Net increase/(decrease) in provision for impairment loss | 2,310,638 | (4,112,259)) |

## 17. INVESTMENTS IN SECURITIES HELD-TO-MATURITY

| | Ushs<br>2013 | Ushs<br>2012 |
|---|---|---|
| Treasury bonds | 1,922,181,862 | 1,334,690,056 |
| Corporate bonds | 67,943,848 | 51,604,632 |
| | 1,990,125,710 | 1,386,294,688 |

**The investments are analysed as follows:**

| | | |
|---|---|---|
| Maturing within 3 months | 109,615,696 | 99,232,998 |
| Maturing after 3 months but within 1 year | 353,308,202 | 146,890,072 |
| Maturing after 1 year | 1,527,201,812 | 1,140,171,618 |
| | 1,990,125,710 | 1,386,294,688 |

The yield rates on the treasury bonds ranged from 9.25% to 14.50% (2012: 10% to 11%) and the treasury bonds mature in 2 to 20 years. The interest rates for corporate bonds ranged from 11.5% to 17% (2012: 11.5% to 17%) and the corporate bonds mature in 1 to 9 years.

## 18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | % held | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| Bank of Baroda (Uganda) Limited | 2.00 | 5,994,750 | 3,896,588 |
| DFCU Limited | 5.93 | 15,186,144 | 14,743,829 |
| Safaricom Kenya Public Co. Ltd | 0.60 | 48,818,507 | 25,095,900 |
| Centum Investments Limited | 0.73 | 2,785,200 | 1,685,200 |
| Stanbic Bank Uganda Limited | 1.72 | 24,703,504 | 23,870,170 |
| New Vision Printing and Publishing Company Limited | 19.6 | 9,075,000 | 9,000,000 |
| Umeme | 8.12 | 47,288,475 | - |
| | | 153,851,580 | 78,291,687 |

All the above equity investments are traded on the Uganda Security Exchange (USE) except for Safaricom which is traded on the Nairobi Stock Exchange (NSE). The trading prices at the last date of trading for the years ended 30 June 2013 and 2012 was as follows:

| | Currency | 2013 | 2012 |
|---|---|---|---|
| Bank of Baroda (Uganda) Limited | Ushs | 120 | 195 |
| DFCU Limited | Ushs | 1,030 | 1,000 |
| Safaricom Kenya PCL | Kshs | 6.55 | 3.45 |
| Stanbic Bank Uganda Limited | Ushs | 25 | 25 |
| Centum Investments Limited | Ushs | 633 | 383 |
| New Vision Printing and Publishing Company Limited | Ushs | 605 | 600 |
| UMEME | Ushs | 359 | - |

The change in the equity investments during the year was as follows:

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| **At 1 July** | 78,291,687 | 93,470,739 |
| Acquisition of new shares | 37,620,100 | 1,346,846 |
| Bonus issue | 3,596,850 | 19,249,336 |
| Disposal of shares | - | - |
| Change in fair value | 33,725,285 | (17,078,324) |
| Foreign exchange losses | 617,658 | (18,696,910) |
| **At 30 June** | 153,851,580 | 78,291,687 |

The Fund's investment in equities that are designated at fair value through profit or loss represent equities for which there is an active market and where the Fund holds less than 20 percent of the voting rights of the investee companies.

## 19. LOANS AND ADVANCES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| DFCU Limited | 1,500,000 | 2,500,000 |
| Uganda Clays Limited (Note 34) | 15,219,768 | 12,316,773 |
| Housing Finance Bank Limited (Note 34) | 40,727,357 | 43,560,238 |
| Staff loans | 3,072,180 | 3,667,812 |
| | 60,519,305 | 62,044,823 |
| Provision for Uganda Clays Ltd loan | (15,219,768) | - |
| | 45,299,537 | 62,044,823 |

The loan to DFCU Limited is unsecured and attracts an interest rate equivalent to the 182-day treasury bill weighted average rate plus 2% per annum currently at 17% (2012: 17%) subject to an automatic review where the treasury bill rates rise above 20% or fall below 5%. The principal and interest are repayable semi-annually.

The loan to Uganda Clays Limited is unsecured and is repayable within 96 months in equal monthly instalments commencing after a grace period of two years (effective 27 December 2013). The loan has a fixed interest rate of 15%.

Housing Finance Bank Limited has two loan facilities with the Fund of Ushs 25 billion at a rate of 11.5% and Ushs 22.5 billion of 15.5% (2012: 15.5%) respectively. The loan of Ushs 25 billion is repayable over a period of 15 years while that of Ushs 22.5 billion is repayable over 10 years. Instalments are due on a quarterly basis after a grace period of 24 months from the date of the first disbursement. During the grace period, interest accrued is payable. The loans are secured by the bank's property on Plot 25, Kampala Road and identifiable and performing condominium mortgage book portfolio worth at least Ushs 10 billion of present and future assets representing 25% of the loan sum for the duration of the loan agreement. In addition, a lien imposed at all times on the government securities owned and held by the bank with a total value of at least Ushs 10 billion representing 25% of the loan sum. The reported amount represents the carrying amount as at 30 June 2013.

The staff loans are loans issued by the Fund to its employees at a discounted interest rate of 6.5% (2012: 6.5%). The loans are issued to employees to acquire/construct houses. The loans are secured by the acquired houses and are to be paid over a period of 15 to 20 years. The gross staff loans at the discounted interest rate of 5% are Ushs 3.7 billion. As at 30 June 2013, the impact on the gross amounts if the loans were advanced at prevailing market rates of interest for similar instruments with similar credit ratings was equivalent to Ushs 1.36 billion (2012: Ushs 2.6 billion). The fair value of the staff loans at prevailing market rates of interest for similar instruments at 30 June 2013 was equivalent to Ushs 1.71 billion (2012: Ushs 1.1 billion).

All the above loans and advances are measured at amortised cost. Management assessed all loans outstanding as at 30 June 2013 for indicators of impairment and determined that no loans exhibited signs of impairment and as such no provision for impairment loss has been made with exception of the Uganda Clays Loan which has been fully provided for.

## 20. INVENTORIES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Inventories | 4,626 | 7,692 |

This relates to consumables and stationery maintained by the Fund for day to day operations.

## 21. NON-CURRENT ASSETS HELD FOR SALE

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| At 30 June | 256,290 | 256,290 |

Leasehold land held in Gulu, Hoima, Masaka and Mbarara was transferred from prepaid operating land lease rentals to non-current assets held for sale following a Board decision to dispose of the properties.

## 22 INVESTMENTS IN ASSOCIATES

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Housing Finance Bank Limited | Uganda Clays Limited | TPS Uganda Limited | Total | Housing Finance Bank Limited | Uganda Clays Limited | TPS Uganda Limited | Total |
| | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 |
| **As at 1 July** | 52,117,754 | 11,017,174 | 5,102,263 | 68,237,191 | 49,145,683 | 10,675,826 | 3,361,847 | 63,183,356 |
| Share of profit/(loss) | 4,307,583 | 2,343,944 | 607,911 | 7,259,438 | 4,632,767 | 341,348 | 1,740,416 | 6,714,531 |
| Share of other comprehensive income | - | 1,955,430 | - | 1,955,430 | - | - | - | - |
| Less: dividends | (2,444,184) | - | (287,162) | (2,731,346) | (1,660,696) | - | - | (1,660,696) |
| **As at 30 June** | 53,981,153 | 15,316,548 | 5,423,012 | 74,720,713 | 52,117,754 | 11,017,174 | 5,102,263 | 68,237,191 |

As at 30 June 2013, the Fund had a shareholding of 50%, 32.52% and 20% in the issued share capital of Housing Finance Bank Limited, Uganda Clays Limited and TPS Uganda Limited respectively. These investments have been accounted for under the equity method.

The summary of the financial information for the investments in associates is as follows:

| **Year ended 30 June 2013** | **% held** | **Total assets Ushs 000** | **Total liabilities Ushs 000** | **Revenue Ushs 000** | **Expenses Ushs 000** | **Profit/ (loss) Ushs 000** |
|---|---|---|---|---|---|---|
| Housing Finance Bank Limited | 50.00% | 556,251,033 | 447,124,898 | 47,873,203 | 39,258,037 | 8,615,166 |
| Uganda Clays Limited | 32.52% | 75,340,660 | 37,744,529 | 17,684,768 | 10,477,069 | 7,207,699 |
| TPS Uganda Limited | 20.00% | 75,396,808 | 14,689,750 | 19,979,946 | 16,940,391 | 3,039,555 |
| **Year ended 30 June 2012** | | | | | | |
| Housing Finance Bank Limited | 50.00% | 470,530,881 | 370,070,135 | 66,314,428 | 57,048,895 | 9,265,533 |
| Uganda Clays Limited | 32.52% | 58,164,624 | 36,145,442 | 24,999,762 | 23,950,107 | 1,049,655 |
| TPS Uganda Limited | 20.00% | 74,722,587 | 16,967,067 | 37,814,791 | 29,112,709 | 8,702,082 |

## 23. OTHER INVESTMENTS

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Victoria Properties Development Limited | - | 10,300 |

Victoria Properties Development Limited (VPDL) was incorporated in 2004 to develop the Fund's property at Lubowa for sale to the public. NSSF holds a 50% equity interest in VPDL, through its wholly owned subsidiary, Premier Developments Ltd (PDL). VPDL borrowed US$ 1 million from Premier Developments Limited to finance its preliminary activities. VPDL entered into a contract for the design and supervision of the Lubowa Housing Project with M/s SBI, at a contract price of US$ 4.9 million, and paid the US$ 1 million borrowed from PDL to SBI to deliver preliminary designs. VPDL delivered an account as to how the loan was utilised, and the Board of Directors authorised a write off of the said loan. A VPDL company Annual General Meeting held in July 2008 approved the annual reports and financial statements for the years 2005-2007, audited by PKF. In 2009, the shareholders of VPDL agreed to wind up the joint venture company and instead have an arm's length contract for design and supervision of the Lubowa Housing Project. The winding up/dissolution agreements and arm's length design/supervision contract have been signed.

## 24. CAPITAL WORK-IN-PROGRESS (CWIP)

| | Arua Ushs 000 | Lubowa Ushs 000 | Other Ushs 000 | Total Ushs 000 |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 30 June 2012** | 2,330,000 | - | - | 2,330,000 |
| Additions | - | 12,611,325 | 65,076 | 12,676,401 |
| Transfer from investment properties | - | 223,000,000 | - | 223,000,000 |
| **At 30 June 2013** | 2,330,000 | 235,611,325 | 65,076 | 238,006,401 |
| **Provision for impairment** | | | | |
| **At 1 July 2012/30 June 2013** | (2,330,000) | - | - | (2,330,000) |
| **Net carrying amount** | | | | |
| **At 30 June 2013** | - | 235,611,325 | 65,076 | 235,676,401 |
| **At 30 June 2012** | - | - | - | - |

The Arua capital work-in-progress relates to costs incurred in creation of a joint venture with the trustees of Arua Golf Club in order to construct a hotel at the golf course. As at 30 June 2009, construction of the hotel was near completion but modalities of share of interest in the hotel had not been finalized with the trustees of the golf club. The Fund has estimated to incur losses as a result of the delayed implementation of this joint venture and ownership structure of the joint venture. Management is currently negotiating with the trustees of golf club with a view of finalizing the joint venture. However management is not certain when the final documentation creating the joint venture will be finalized. Due to uncertainties surrounding the recoverability of these amounts, the balance was fully impaired and recognised in the statement of comprehensive income in 2008.

During the year, the Fund commenced development of the Lubowa Land and has contracted Soleh Boneh International (SBI) Holdings AG Uganda as project designer and supervisor for the Lubowa Housing Project. Consequently, all land previously recognised as investment property has been reclassified as capital work in progress. The housing units will be reclassified to inventory on completion.

## 25. INVESTMENT PROPERTIES

| | Value at 30 June 2011 | Additions | Transfer from Prepaid operating | Change in fair value | Disposal | Value at 30 June 2012 | Additions - | Reclassifications | Value a 30 Jun 201 |
|---|---|---|---|---|---|---|---|---|---|
| | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | - | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 00 |
| Workers' House | 40,413,684 | - | - | 12,486,316 | - | 52,900,000 | - | - | 52,900,00 |
| Plot 5 Mvule Rd Naguru | 1,200,000 | - | - | 420,000 | - | 1,620,000 | - | - | 1,620,00 |
| Land on Yusuf Lule Road | 11,870,892 | - | - | 5,751,108 | - | 17,622,000 | - | - | 17,622,00 |
| Independence Avenue Arua | 45,000 | - | - | 90,000 | - | 135,000 | - | - | 135,00 |
| Land in Kisugu | - | - | - | 185,000 | - | 185,000 | - | - | 185,00 |
| Land in Kabale | - | - | 4,411 | 220,589 | - | 225,000 | - | - | 225,00 |
| Land in Jinja | - | - | 13,746 | 521,254 | - | 535,000 | - | - | 535,00 |
| Land in Tororo | - | - | 39,789 | 85,211 | - | 125,000 | - | - | 125,00 |
| Lumumba Avenue | 43,210,273 | 11,225,315 | - | - | - | 54,435,588 | 4,482,738 | - | 58,918,32 |
| Social Security House | 16,000,000 | - | - | 5,015,000 | - | 21,015,000 | - | - | 21,015,00 |
| Mbuya Property M65 | 2,238,889 | 156,243 | - | 514,868 | (2,910,000) | - | - | 2,840,000 | 2,840,00 |
| Land in Mbuya | - | 1,620,000 | - | - | - | 1,620,000 | - | - | 1,620,00 |
| Land in Lubowa | 186,487,950 | - | 15,256 | 36,496,794 | - | 223,000,000 | | (223,000,000) | |
| Land in Busiro Temangalo | 16,000,000 | - | - | (3,835,000) | - | 12,165,000 | - | - | 12,165,00 |
| Total | 317,466,688 | 13,001,558 | 73,202 | 57,951,140 | (2,910,000) | 385,582,588 | 4,482,738 | (220,160,000) | 169,905,32 |

Investment properties comprise of land and buildings held to earn rentals and/or capital appreciation. Property under construction is recognised as investment property and carried at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier. The fair value of property under construction is not reliably determinable and the Fund expects that this will continue to be the case until completion. As at 30 June 2013, property under construction related to the Pension Towers project on Lumumba Avenue.

With exception of property under construction, the fair values as at 30 June 2013 are based on the reassessment of valuation of 30 June 2012 done by SM Cathan, a certified professional valuer. In determining the above values of investment properties, the valuer used the open market value which is the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of assessment. In instances where the market value of a property could not be ascertained due to lack of information, the valuers adopted an approach based on the depreciated replacement cost. With this method, the values for buildings and other improvements are determined by calculating the present day replacement cost of putting up a similar and functional structure ready to provide the same facilities at the same place but depreciating them accordingly.

## 26. INTANGIBLE ASSETS

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| **Cost** | | |
| **At 1 July** | 18,572,573 | 14,508,297 |
| Additions | 12,266 | 1,467,811 |
| Transfer from capital work-in-progress | - | 1,057,326 |
| Reclassification from computer equipment and fittings | - | 1,539,139 |
| **At 30 June** | 18,584,839 | 18,572,573 |
| **Amortisation** | | |
| **At 1 July** | 8,503,763 | 6,339,867 |
| Reclassification from computer equipment and fittings | - | 666,809 |
| Charge for the year | 1,666,223 | 1,497,087 |
| **At 30 June** | 10,169,986 | 8,503,763 |
| **Net carrying amount** | 8,414,853 | 10,068,810 |

Intangible assets relate to software which makes up the Integrated Management Information System (IMIS) of the Fund.

## 27. PROPERTY AND EQUIPMENT

| | Land Ushs 000 | Property & machinery Ushs 000 | Motor vehicles Ushs 000 | Furniture and fittings Ushs 000 | Computer equipment Ushs 000 | Total Ushs 000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 July 2011** | 1,106,170 | 1,104,988 | 7,925,277 | 2,174,690 | 11,708,602 | 24,019,727 |
| Additions | - | 365,400 | - | 1,065,319 | 420,684 | 1,851,403 |
| Reclassification to intangibles | - | - | - | (35,371) | (1,503,768) | (1,539,139) |
| Disposals | - | (17,259) | (4,332,322) | (115,317) | (1,310,425) | (5,775,323) |
| **At 30 June 2012** | **1,106,170** | **1,453,129** | **3,592,955** | **3,089,321** | **9,315,093** | **18,556,668** |
| Additions | - | 166,901 | - | 48,400 | 1,314,905 | 1,530,206 |
| Disposals | (706,170) | - | - | - | - | (706,170) |
| **At 30 June 2013** | **400,000** | **1,620,030** | **3,592,955** | **3,137,721** | **10,629,998** | **19,380,704** |
| **Depreciation** | | | | | | |
| **At 1 July 2011** | - | 632,772 | 6,245,555 | 1,212,335 | 5,895,690 | 13,986,352 |
| Charge for the year | - | 341,090 | 768,529 | 274,005 | 4,112,221 | 5,495,845 |
| Reclassification | - | - | - | (14,069) | (652,740) | (666,809) |
| Disposals | - | (11,231) | (3,979,110) | (113,216) | (1,297,244) | (5,400,801) |
| **At 30 June 2012** | - | **962,631** | **3,034,974** | **1,359,055** | **8,057,927** | **13,414,587** |
| Charge for the year | - | 251,091 | 417,374 | 307,495 | 964,005 | 1,939,965 |
| **At 30 June 2013** | - | **1,213,722** | **3,452,348** | **1,666,550** | **9,021,932** | **15,354,552** |
| **Net carrying amount** | | | | | | |
| **At 30 June 2013** | **400,000** | **406,308** | **140,607** | **1,471,171** | **1,608,066** | **4,026,152** |
| **At 30 June 2012** | **1,106,170** | **490,498** | **557,981** | **1,730,266** | **1,257,166** | **5,142,081** |

## 28. WITHHOLDING TAX PAYABLE

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Withholding tax payable | 901,895 | 901,895 |

This relates to withholding tax withheld from suppliers and consultants which is payable to Uganda Revenue Authority.

## 29. OTHER PAYABLES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Accounts payable | 12,181,357 | 3,800,290 |
| Accrual for legal costs | 6,810,744 | 11,937,811 |
| Alcon retention payable | 1,202,310 | 1,202,310 |
| Deferred income | 3,460 | 18,298 |
| Other payables | - | 394,317 |
| | 20,197,871 | 17,353,026 |

The accrual for legal costs is analysed as follows:

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| At 1 July | 11,937,811 | 14,746,140 |
| Payments made during the year | (219,377) | (301,989) |
| Decrease in accrual during the year | (4,907,690) | (2,506,340) |
| At 30 June | 6,810,744 | 11,937,811 |

The accrual for legal costs relates to fees for the former lawyers who were handling the ongoing Alcon case disclosed in Note 30. The accruals are based on the fee notes raised by the former lawyers. The fee notes have been referred to court for assessment of reasonableness before they can be paid.

## 30. PROVISIONS FOR LITIGATION

**Alcon International Limited**

| | | |
|---|---|---|
| At 1 July | 41,590,470 | 41,877,198 |
| Interest payable | - | 2,486,373 |
| Foreign exchange losses/(gains) | - | (2,773,101) |
| Reversal of provision | (41,590,470) | - |
| Provision | 9,239,702 | - |
| At 30 June | 9,239,702 | 41,590,470 |

On 21st July 1994 National Social Security Fund (NSSF) and Alcon International Limited (Alcon), a company incorporated in the Republic of Kenya, entered into a building contract to erect a building on land located on plot 1 Pilkington Road, Kampala ("the site") at the contract price of USD 16,160,000. In addition, the parties signed a co-financing agreement by which Alcon agreed to lend NSSF USD 8,080,000 in the form of materials, workmanship and labour. On 8th June 1996, the parties signed an additional agreement to carry out "improvement works" for an additional sum of USD 9,066,917.

## 30. PROVISIONS FOR LITIGATION (CONTINUED)

NSSF alleged default on the terms of the contract by Alcon and construction of all the works contemplated by the contract was not completed. NSSF terminated the contract on 15th May 1998 NSSF due to breaches by Alcon. Consequently, on 30th November 1998, Alcon filed Civil Suit No.1255 of 1998 against NSSF seeking general damages for breach of contract. The High Court stayed the suit and referred the dispute to arbitration.

On 29th March 2001, the arbitrator awarded Alcon USD 8,858,470 and interest at 6% per annum. NSSF were dissatisfied with the award and filed an objection in the High Court under Misc. Application No. 417 of 2001 seeking to set it aside. On 30th September 2003, the High Court dismissed the objection. NSSF filed a Civil Appeal No.2 of 2004 in the Court of Appeal which was also dismissed with costs on 25th August 2009. NSSF then filed Civil Appeal No. 15 of 2009 in the Supreme Court against the decision of the Court of Appeal.

During the previous year, the Fund adopted a new litigation strategy, introduced new grounds of appeal and also instructed new lawyers to conduct the case. In February 2013, the Supreme Court delivered a landmark judgment setting aside the arbitration award, and ordered that the case be tried afresh in the High Court.

Management is of the opinion the claim has no chance of success owing to the Supreme Courts findings of fraud and lack of a cause of action for breach of contract which are binding on the High Court. The High Court trial will therefore be a formality. The provision hitherto made for that liability was accordingly reversed. However, a provision of USD 3,553,731 as at 30th June 2013 was made in the financial statements for works performed by Alcon that had not been settled by the Fund.

In a related development, the East African Court of Justice has also dismissed Alcon's suit against Standard Chartered Bank seeking to enforce the bank guarantee that NSSF had deposited with Court as security for the arbitration award.

## 31. ACCUMULATED MEMBERS' FUNDS

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| **At 1 July** | 2,621,222,866 | 2,071,024,274 |
| Contributions received during the year | 552,683,614 | 472,861,120 |
| Transfer to reserve account (Note 33 (b)) | - | (24,592,500) |
| Interest received on arrears | 7,324,349 | 6,341,693 |
| 11.23% interest (2012: 10%) ** | 281,397,243 | 196,964,777 |
| **Members fund liability before benefit payments** | **3,462,628,072** | **2,722,599,364** |
| **Benefits paid during the year** | | |
| Age benefits | (47,738,802) | (38,709,099) |
| Withdrawal benefits | (35,328,891) | (24,163,544) |
| Exempted employee benefits | (15,895,893) | (15,456,556) |
| Invalidity benefits | (11,475,425) | (7,567,905) |
| Survivors benefits | (6,241,868) | (3,038,822) |
| Emigration grant benefits | (23,370,966) | (12,440,572) |
| **Total benefits payments** | **(140,051,845)** | **(101,376,498)** |
| **At 30 June** | **3,322,576,227** | **2,621,222,866** |

## 31. ACCUMULATED MEMBERS' FUNDS (CONTINUED)

** This represents interest payment to members as declared by the Minister in accordance with section 35 (2) of the National Social Security Fund Act, (Cap 222). For the year ended 30 June 2013, the Minister for Finance, Planning & Economic Development approved an interest rate of 11.23% (2012: 10%) to be calculated and added to the members' funds.

## 32. RESERVES

### a) Special contributions, fines and penalties

In accordance with Section 13 (1) and Section 14 (1) of the National Social Security Fund Act, (Cap 222), special contributions by non-eligible employees and fines and penalties recovered from employers that fail to remit members funds as stipulated in the Act are credited to a reserve account. During the year, management recovered Ushs 2,500 million (2012: Ushs 1,892 million) in special contributions and fines and penalties and credited it to the reserve account. The fines and penalties are recognised in the statement of comprehensive income and then appropriated from the accumulated surplus/(deficit) to the reserve account.

| **b) Unallocated members' contributions** | **2013 Ushs 000** | **2012 Ushs 000** |
|---|---|---|
| At 1 July | 24,592,500 | - |
| Transfer from accumulated members' funds | - | 24,592,500 |
| At 30 June | 24,592,500 | 24,592,500 |

As at 30 June 2013, the Fund had unallocated members' contributions of Ushs 24.6 billion that formed part of the reserve account. As at 30 June 2007, the unallocated members' contributions amounted to Ushs 360 billion and through the measures taken by management to identify the respective members to whom the amounts belonged, the unallocated amounts gradually reduced over the years to Ushs 24.6 billion as at 30 June 2012. The directors believe that, in addition to putting in place measures to curtail the growth of the unallocated amounts, the Fund had exhausted all possible measures to identify the members to whom these amounts belonged and accordingly resolved to transfer the Ushs 24.6 billion to the reserve account in accordance with Section 36 (1) (b) of the NSSF Act. In the event that a member of the Fund presents adequate documentation to prove that there are contributions that should have been credited to their account, NSSF will transfer the contributions from the reserve account to the members' account following approval by the Minister of Finance as stipulated in Section 36 (2) of the NSSF Act.

## 33. NET CASH USED IN OPERATING ACTIVITIES

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Surplus before tax | 412,916,475 | 276,299,605 |
| Depreciation of property and equipment | 1,939,965 | 5,495,845 |
| Loss/(Gain) on disposal of property and equipment | 56,170 | (1,346,305) |
| Gain on disposal of investment properties | - | (511,500) |
| Amortization of intangible assets | 1,666,223 | 1,497,087 |
| Prepaid operating land lease amortization | - | 14,576 |
| Share of results from associates | (7,259,438) | (6,714,531) |
| Provision for capital work-in-progress | - | 9,136 |
| Unrealised foreign exchange (gains)/losses on equity investments | (617,658) | 18,696,910 |
| Fair value gains on investment properties | - | (57,951,140) |
| Fair value (gain)/loss on equity investments | (33,725,285) | 17,078,324 |
| | **374,976,452** | **252,568,007** |
| Decrease in inventories | 3,066 | 8,079 |
| Decrease/(Increase) in trade and other receivables | 6,347,902 | (8,841,438) |
| Decrease in other payables and provisions | (29,848,465) | (4,272,721) |
| (Increase)/Decrease in deposits with commercial banks due after 3 months | (154,495,153) | 249,341,302 |
| Increase in investments in securities held-to-maturity maturing after 3 months | (593,448,324) | (716,101,692) |
| Income tax (withholding tax) paid | (69,616,573) | (37,462,230) |
| **Net cash flows used in operating activities** | **(466,081,095)** | **(264,760,693)** |

## 34. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that have been entered into with related parties. For information regarding the outstanding balances at 30 June 2013 and 2012, refer to Note 13, 14 and 17:

| | | Placements/ Payments/ bal/b fwd Ushs 000 | Maturities/Receipts Ushs 000 | Interest accrued Ushs 000 | Amounts owed by Related parties Ushs 000 |
|---|---|---|---|---|---|
| **Housing Finance Bank** | | | | | |
| - Cash balances | 2013 | - | - | - | 119,085 |
| | 2012 | - | - | - | 772,805 |
| - Fixed deposits | 2013 | 25,000000 | (29,500,000) | 1,983,023 | 39,122,699 |
| | 2012 | 29,500,000 | (72,500,000) | 2,408,779 | 31,908,779 |
| - Corporate bonds | 2013 | 10,000,000 | - | 612,207 | 10,612,207 |
| | 2012 | 10,000,000 | - | 602,301 | 10,602,301 |
| - Loans & advances | 2013 | 40,666,666 | (2,428,965) | 14,965 | 40,727,357 |
| | 2012 | 43,500,000 | (1,500,000) | 15,733 | 43,560,238 |

## 34. RELATED PARTIES (CONTINUED)

| | | Placements/Payments Ushs 000 | Maturities/Receipts Ushs 000 | Interest accrued Ushs 000 | Amounts owed by Related parties Ushs 000 |
|---|---|---|---|---|---|
| **Uganda Clays Limited** | | | | | |
| Loan | **2013** | - | (99,649) | 496,013 | 15,219,768 |
| | **2012** | 10,286,552 | | 2,030,220 | 12,316,772 |
| **Government of Uganda** | | | | | |
| Treasury bills | **2013** | - | - | - | - |
| | **2012** | - | (26,210,174) | - | - |
| Government Bonds | **2013** | 1,816,819,639 | (184,465,056) | 104,292,871 | 1,922,181,862 |
| | **2012** | 1,275,098,036 | (14,275,262) | 59,591,632 | 1,334,690,056 |
| Withholding tax paid | **2013** | 69,616,573 | - | - | - |
| | **2012** | 37,462,230 | - | - | - |
| **Key management personnel** | | | | | |
| Advances | **2013** | 849,713 | (96,107) | - | 849,713 |
| | **2012** | 1,010,715 | (70,202) | - | 1,010,715 |

### a) Housing Finance Bank

The Fund has a 50% shareholding in Housing Finance Bank.

*Bank balances* - The bank balances relate to balances on the current accounts held by NSSF in Housing Finance Bank Limited. These accounts are non-interest bearing.

*Fixed deposits* - The Fund has fixed deposit placements with the bank maturing within a period of 365 day and with interest rates ranging from 16.5% to 21.2%.

*Corporate bond* - The corporate bond is for a period of 10 years with an interest rate of 13.5% and matures on 12 January 2018.

*Loans* - Loans to Housing Finance Bank are at interest rates ranging between 12.5% and 15.5%. Refer to Note 19 for the terms and conditions of the facilities.

### b) Uganda Clays Limited

The Fund has a 32.5% shareholding in Uganda Clays Limited. Refer to Note 19 for the terms and conditions of the facilities.

### c) Government of Uganda

The Government has 100% control in the Fund. Other significant related party transactions with the Government of Uganda include payment of taxes (Pay as-You-Earn (PAYE), VAT and withholding tax on local supplies and professional services), utility costs and rental income earned from government ministries that occupy the Fund's properties.

## 34. RELATED PARTIES (CONTINUED)

### d) Terms and conditions

Other than the terms disclosed above, there have been no guarantees provided or received for any of the above related party receivables. For the year ended 30 June 2013, the Fund has recorded an impairment of receivables relating to amounts owed by related parties of Ushs 15.22 million (2011: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

### e) Compensation for key management personnel and directors emoluments

| | 2013<br>Ushs 000 | 2012<br>Ushs 000 |
|---|---|---|
| Non-executive directors' emoluments: | | |
| Salaries and allowances | 394,803 | 275,350 |
| Key management remuneration: | | |
| Salaries and allowances | 3,071,467 | 2,701,168 |
| Terminal benefits | 335,112 | 525,429 |
| | 3,801,382 | 3,501,947 |

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel and directors.

## 35. CONTINGENT LIABILTIES

a) The Fund is a litigant in other various cases for breach of contract arising in the normal course of business. The directors are of the view that the Fund has high chances of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Fund's operation. The directors are confident that the Fund shall receive favourable ruling from the outstanding cases. Information on these cases has not been disclosed as the directors consider that the disclosure of the information could prejudice the Fund's position. The cases in which the Fund is a litigant majorly relate to breach of contracts that the Fund entered into and members suing for their unsettled benefit claims.

b) The Fund received a notice of assessment for corporation tax from Uganda Revenue Authority (URA) amounting to Ushs 49.7 billion. The Fund objected to the assessment on the grounds that URA's tax computations contained expenses that were wrongly disallowed. The Fund, through its tax consultants formally responded to the issues raised by URA. As at the date of this report, URA had not responded to the Fund's submission. No provision has therefore been made in the financial statements because in the opinion of the directors, this liability is unlikely to materialise.

## 36. NSIMBE HOLDINGS LIMITED

Through its wholly owned subsidiary, Premier Developments Limited, the Fund entered into a joint venture arrangement with Mugoya Estates Limited in which the latter held a 51% share of the joint venture entity, Nsimbe Holdings Limited. Subsequent to the formation, the Fund's investment in Nsimbe Holdings Limited was investigated by the Inspector General of Government (IGG) who declared the Fund's investment illegal and one done in bad faith. As a result of this investigation, Nsimbe Holdings Limited challenged the IGG's findings in the Constitutional Court. The Constitutional Court subsequently declared the agreement leading to the formation of Nsimbe Holdings Limited unconstitutional and therefore the company did not exist in law i.e. a non-entity which cannot sue or be sued. The Board of Directors of the Fund resolved that the joint venture is formally liquidated and both parties share the joint venture assets in proportion to their shareholding. Accordingly, the Fund entered into negotiations with Eng. James Isabirye, the proprietor of Mugoya Estates Limited but the negotiations had collapsed by the time of issuing these financial statements. The Fund intends to take legal action to recover its investment. The recoverability of this amount can't be determined at this time, and therefore the investment remains fully impaired in these financial statements.

## 37. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The estimates and associated assumption are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management identifies all significant accounting policies and those that involve high judgement and in particular the significant areas of estimation and uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are:

(i) *Impairment* - The Fund makes estimates and assumptions that could affect the reported amounts of assets within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund regularly reviews its assets and makes judgements in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 37. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) *Determining fair values* - The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) *Provisions and contingencies* - A provision is recognized if as a result of past events, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. For the provisions included in the financial statements see note 30.

## 38. FINANCIAL RISK MANAGEMENT

### Introduction and overview

The Fund has exposure to the following risks from its use of financial instruments:

- Market risk,
- Liquidity risk, and
- Credit risk.

Included below is information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing the risks and the Fund's management of capital.

### Risk management framework

The Fund's Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. The board has established an Audit and Risk Committee, and the Risk Department, which are responsible for developing and monitoring the risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Fund's Audit and Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Risk Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

### (a) Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while optimising the return on risk.

**Management of market risks**

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by adverse movements in the market variables such as equity, bonds and commodity prices, currency exchange rates and interest rates.

The Board grants authority to take on market risk exposure to the Management Investment Committee (MIC). This committee manages this risk through the guidelines set out in the Fund's investment policy.

***Currency risk***

The Fund is exposed to currency risk through transactions in foreign currencies. The Fund transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Fund ensures that its net exposure is kept to an acceptable level by matching foreign currency assets to liabilities when considered appropriate. Monitoring of foreign currency fluctuations is done through the Audit and Risk Committee.

The Fund operates wholly within Uganda and its assets and liabilities are reported in Uganda shillings, although it maintains some of its assets and trades with banks in foreign currencies. The Fund held no significant foreign currency exposure as at 30 June as shown below:

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

***Currency risk (continued)***

The Fund had the following significant currency positions as at 30 June 2013. All balances are in Ushs 000.

| **Assets** | **USD** | **Kshs** | **Ushs** | **Total** |
|---|---|---|---|---|
| Cash and bank balances | 322,137 | 2,411,929 | 12,642,605 | 15,376,671 |
| Deposits with commercial banks | 42,017,631 | - | 689,936,464 | 731,954,095 |
| Equity securities held-for-trading | - | 29,219,319 | 6,094,008 | 35,313,327 |
| Trade and other receivables | - | - | 16,244,417 | 16,244,417 |
| Investments in securities held-to-maturity | - | 154,441,351 | 1,835,684,359 | 1,990,125,710 |
| Equity investments at fair value through profit or loss | - | 48,818,508 | 105,033,072 | 153,851,580 |
| Loans and advances | - | - | 45,299,537 | 45,299,537 |
| Inventories | - | - | 4,626 | 7,692 |
| Non-current assets held for sale | - | - | 256,290 | 256,290 |
| Investments in Associates | - | - | 74,720,713 | 74,720,713 |
| Capital work-in-progress | - | - | 235,676,401 | 235,676,401 |
| Investment properties | - | - | 169,905,326 | 169,905,326 |
| Intangible assets | - | - | 8,414,853 | 8,414,853 |
| Property and equipment | - | - | 4,026,152 | 4,026,152 |
| **Total Assets** | **42,339,768** | **234,891,107** | **3,203,938,823** | **3,481,169,698** |
| | | | | |
| **Liabilities** | | | | |
| Withholding tax payable | - | - | 901,895 | 901,895 |
| Other payables | 143,848 | - | 20,054,023 | 20,197,871 |
| Provisions for litigation | 9,239,702 | - | - | 9,239,702 |
| | **9,383,550** | **-** | **20,955,918** | **30,339,468** |
| **Members' Funds and Reserves** | | | | |
| Accumulated members' funds | - | - | 3,322,576,227 | 3,322,576,227 |
| Reserve accounts | - | - | 38,197,834 | 38,197,834 |
| Accumulated surplus | - | - | 90,056,169 | 90,056,169 |
| | - | - | 3,450,830,230 | **3,450,830,230** |
| **Total Members' fund, reserves & liabilities** | **9,383,550** | **-** | **3,471,786,148** | **3,481,169,698** |
| **Currency gap** | | | | |
| **As at 30 June 2013** | **32,956,218** | **234,891,107** | **(267,847,325)** | **-** |

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

*Currency risk (continued)*

The Fund had the following significant currency positions as at 30 June 2012. All balances are in Ushs 000.

| | USD | Kshs | Ushs | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 4,625,430 | - | 12,788,580 | 17,414,010 |
| Deposits with commercial banks | 66,685,549 | - | 619,465,774 | 686,151,323 |
| Investment in securities held-for-trading | - | 16,461,036 | 4,409,393 | 20,870,429 |
| Trade and other receivables | - | - | 22,592,219 | 22,592,219 |
| Investments in securities held-to-maturity | - | - | 1,386,294,688 | 1,386,294,688 |
| Equity investments at fair value through profit or loss | - | 25,095,916 | 53,195,771 | 78,291,687 |
| Loans and advances | - | - | 62,044,823 | 62,044,823 |
| Inventories | - | - | 7,692 | 7,692 |
| Prepaid operating lease | - | - | 256,290 | 256,290 |
| Investments in Associates | - | - | 68,237,191 | 68,237,191 |
| Other investments | - | - | 10,300 | 10,300 |
| Investment properties | - | - | 385,582,588 | 385,582,588 |
| Intangible assets | - | - | 10,068,810 | 10,068,810 |
| Property and equipment | - | - | 5,142,081 | 5,142,081 |
| **Total Assets** | **71,310,979** | **41,556,952** | **2,630,096,200** | **2,742,964,131** |
| | | | | |
| **Liabilities** | | | | |
| Withholding tax payable | - | - | 901,895 | 901,895 |
| Other payables | - | - | 17,353,026 | 17,353,026 |
| Provisions for litigation | 41,590,470 | - | - | 41,590,470 |
| | **41,590,470** | **-** | **18,254,921** | **59,845,391** |
| **Members' Funds and Reserves** | | | | |
| Accumulated members' funds | - | - | 2,621,222,866 | 2,621,222,866 |
| Reserve account | - | - | 34,328,993 | 34,328,993 |
| Accumulated surplus | - | - | 27,566,881 | 27,566,881 |
| | - | - | **2,683,118,740** | **2,683,118,740** |
| **Total Members' fund, reserves & liabilities** | **41,590,472** | **-** | **2,701,373,661** | **2,742,964,131** |
| | | | | |
| Currency gap | | | | |
| **As at 30 June 2012** | (29,720,507) | (41,556,952) | 71,277,461 | |

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

*Currency risk (continued)*

The table below indicates the currencies to which the Fund had significant exposure at 30 June on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar and Kenya Shilling, with all other variables held constant, on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income and equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the US Dollar and Kenya Shilling would have resulted in an equivalent but opposite impact.

| Currency | Change in currency rate in % | Effect on profit before tax | Change in currency rate in % | Effect on profit before tax |
|---|---|---|---|---|
| | 2013 | 2013 | 2012 | 2012 |
| | | Ushs '000 | | Ushs '000 |
| USD | +/-10% | +/-4,216,320 | +/-10% | +/-2,972,051 |
| KES | +5% | +/-11,282,570 | +5% | +/-1,254,796 |

The following exchange rates applied during the year:

| | | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | | Ushs | Ushs | Ushs | Ushs |
| Kenya | KES | 31.28 | 29 | 31.28 | 30 |
| U.S.A | USD | 2,601.20 | 2,450 | 2,639.06 | 2,512 |

*Interest rate risk*

In broad terms, interest rate risk is the risk that concerns the sensitivity of the Fund's financial performance to changes in interest rates. The Fund's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Fund's business strategies. In order to minimize interest risk, the Fund has a policy whereby the approved investment commitments are matched to member's funds.

***Fair value and cash flow sensitivity analysis***

The Fund does not account for any fixed rate or variable rate financial assets at fair value through profit or loss. Therefore a change in interest rate at the statement of financial position date will not affect surplus or deficit.

The financial assets held at variable rate relate to the corporate bonds for East African Development Bank (EADB). These balances are not significant when compared with the total financial assets of the Fund as at year end, hence a change of 1 basis point in the interest rate for these instruments would have an insignificant effect on the statement of comprehensive income. The table below summarizes the exposure to interest rate risk. Included in the table are the Fund's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing dates and the maturity dates. All balances are in Ushs 000.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | Matured | <3 months | 3-12 months | 1-5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and bank balances | 15,376,671 | - | - | - | - | 15,376,671 |
| Deposits with commercial banks | - | 220,860,570 | 511,093,525 | - | - | 731,954,095 |
| Investments in securities held-to-maturity | - | 109,615,696 | 353,308,202 | 1,527,201,812 | - | 1,990,125,710 |
| Trade and other receivables | 1,735,733 | - | - | - | 14,508,684 | 16,244,417 |
| Equity investments at fair value through profit or loss | - | - | - | - | 153,851,580 | 153,851,580 |
| Loans and advances | - | - | - | 45,299,537 | - | 45,299,537 |
| Inventories | - | - | - | - | 4,626 | 4,626 |
| Investments in Associates | - | - | - | - | 74,720,713 | 74,720,713 |
| Capital work in progress | - | - | - | - | 235,676,401 | 235,676,401 |
| Investment properties | - | - | - | - | 169,905,326 | 169,905,326 |
| Non-current assets held for sale | - | - | - | - | 256,290 | 256,290 |
| Equity securities held-for-trading | - | - | - | - | 35,313,327 | 35,313,327 |
| Intangible assets | - | - | - | - | 8,414,853 | 8,414,853 |
| Property and equipment | - | - | - | - | 4,026,152 | 4,026,152 |
| **Total assets** | **17,112,404** | **330,476,266** | **864,401,727** | **1,572,501,349** | **696,677,952** | **3,481,169,698** |
| **LIABILITIES, MEMBERS' FUNDS AND RESERVES** | | | | | | |
| Withholding tax payable | - | - | - | - | 901,895 | 901,895 |
| Trade and other payables | - | - | - | - | 20,197,871 | 20,197,871 |
| Provisions for litigation | - | - | - | - | 9,239,702 | 9,239,702 |
| Accumulated members' funds | - | - | - | - | 3,322,576,227 | 3,322,576,227 |
| Reserves | - | - | - | - | 38,197,834 | 38,197,834 |
| Accumulated surplus | - | - | - | - | 90,056,169 | 90,056,169 |
| **Total members' funds, reserves and liabilities** | - | - | - | - | **3,481,169,698** | **3,481,169,698** |
| **Gap as at 30 June 2013** | **17,112,404** | **330,476,266** | **864,401,727** | **1,572,501,349** | **(2,784,491,746)** | **-** |

| ASSETS | Matured | 1 up to 3 months | 3 to 12 months | 1 to 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| Cash and bank balances | 17,414,010 | - | - | - | - | 17,414,010 |
| Deposits with commercial banks | - | 329,552,951 | 356,598,372 | - | - | 686,151,323 |
| Investments in securities held-to-maturity | - | 99,232,998 | 146,890,072 | 1,140,171,618 | - | 1,386,294,688 |
| Trade and other receivables | - | - | - | - | 22,592,219 | 22,592,219 |
| Equity investments at fair value through profit or loss | - | - | - | - | 78,291,687 | 78,291,687 |
| Loans & advances | - | - | - | 62,044,823 | - | 62,044,823 |
| Inventories | - | - | - | - | 7,692 | 7,692 |
| Investments in Associates | - | - | - | - | 68,237,191 | 68,237,191 |
| Other investments | - | - | - | - | 10,300 | 10,300 |
| Capital work-in-progress | - | - | - | - | 385,582,588 | 385,582,588 |
| Investment properties | - | - | - | - | 256,290 | 256,290 |
| Prepaid operating lease rentals | - | - | - | - | 20,870,429 | 20,870,429 |
| Intangible assets | - | - | - | - | 10,068,810 | 10,068,810 |
| Property and equipment | - | - | - | - | 5,142,081 | 5,142,081 |
| **Total assets** | **17,414,010** | **428,785,949** | **503,488,444** | **1,202,216,441** | **591,059,287** | **2,742,964,131** |
| **LIABILITIES AND MEMBERS' FUNDS AND RESERVES** | | | | | | |
| Withholding tax payable | - | - | - | - | 901,895 | 901,895 |
| Trade and other payables | - | - | - | - | 17,353,026 | 17,353,026 |
| Provisions for litigation | - | - | - | 41,590,470 | - | 41,590,470 |
| Accumulated members' funds | - | - | - | - | 2,621,222,866 | 2,621,222,866 |
| Reserve account | - | - | - | - | 34,328,993 | 34,328,993 |
| Accumulated deficit | - | - | - | - | 27,566,881 | 27,566,881 |
| **Total members' funds, reserves and liabilities** | - | - | - | **41,590,470** | **2,701,373,661** | **2,742,964,131** |
| **Gap as at 30 June 2012** | **17,414,010** | **428,785,949** | **503,488,444** | **1,160,625,971** | **(2,110,314,374)** | **-** |

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

***Fair value versus carrying amounts***

The fair values of financial assets and liabilities together with the carrying value shown in the statement of financial position are analysed as follows. The fair value of the financial assets and liabilities approximates to their respective carrying amounts:

| | 30 June 2013 | | 30 June 2012 | |
|---|---|---|---|---|
| | Carrying amount Ushs '000 | Fair value Ushs '000 | Carrying amount Ushs '000 | Fair Value Ushs '000 |
| Loans and advances | 45,299,537 | 45,299,752 | 62,044,823 | 62,044,823 |
| Investment securities | 1,990,125,710 | 1,990,125,710 | 1,386,294,688 | 1,386,294,688 |
| Equity investments at fair value through profit or loss | 153,851,580 | 153,851,580 | 78,291,687 | 78,291,687 |
| Other investment | - | - | 10,300 | 10,300 |
| Deposits due from commercial banks | 731,954,095 | 731,954,095 | 686,151,323 | 686,151,323 |
| Trade and other receivables | 16,244,417 | 16,244,417 | 22,592,219 | 22,592,219 |
| Cash and bank balances | 15,376,671 | 15,376,671 | 17,414,010 | 17,414,010 |
| Investment securities held for trading | 35,313,326 | 35,313,326 | 20,870,429 | 20,870,429 |
| Other payables | (20,197,871) | (20,197,871) | (17,353,026) | (17,353,026) |
| | **2,967,967,465** | **2,967,967,465** | **2,256,316,453** | **2,256,316,453** |

**Valuation hierarchy**

IFRS 7: Financial Instruments-Disclosures ("IFRS 7") requires a three tiered disclosure for all financial assets and financial liabilities that are carried in the books of entities at fair value. This fair value disclosure is divided into three levels as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities e.g. quoted equity securities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (e.g. prices) or indirectly (e.g. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data. These items are not Level 1 products and contain at least one significant input parameter which could not be price tested from any of the methods described for Level 2 products. Examples are products where correlation is a significant input parameter and products where there is severe illiquidity in the markets for a prolonged period of time.

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below for the year ended 30 June:

| | 2013<br>Level 1<br>Ushs 000 | 2012<br>Level 1<br>Ushs 000 |
|---|---|---|
| Equity investments at fair value through profit or loss | 153,851,580 | 78,291,687 |
| Investment securities held-for-trading | 35,313,326 | 20,870,429 |
| | 189,164,906 | 99,162,116 |

### (b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

**Management of liquidity risk**

The Fund has access to a diverse funding base. Funds are raised mainly from members' contributions and reserves. The Fund continually assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Fund strategy. In addition, the Fund has a Management Investment Committee that meets on a regular basis to monitor liquidity risk, review and approve liquidity policies and procedures.

**Exposure to liquidity risk**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2013 to the contractual maturity date. All balances are in Ushs 000.

| AS AT 30 JUNE 2013 | Matured | <3 months | 3-12 months | 1 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and bank balances | 15,376,671 | - | - | - | - | 15,376,671 |
| Deposits with commercial banks | - | 220,860,570 | 511,093,525 | - | - | 731,954,095 |
| Investments In securities held-to-maturity | - | 109,615,696 | 353,308,202 | 1,027,017,204 | 500,184,607 | 1,990,125,710 |
| Trade and other receivables | 1,735,733 | - | 14,508,684 | - | - | 16,244,417 |
| Equity investments at fair value through profit or loss | - | - | - | 153,851,580 | - | 153,851,580 |
| Loans and advances | - | - | - | 45,299,752 | - | 45,299,752 |
| Investment securities held-for-trading | - | - | - | - | 35,313,326 | 35,313,326 |
| **TOTAL FINANCIAL ASSETS** | 17,112,404 | 330,476,266 | 878,910,411 | 1,226,168,536 | 535,497,933 | 2,988,165,550 |
| **FINANCIAL LIABILITIES** | | | | | | |
| Other payables | - | 20,197,871 | - | - | - | 20,197,871 |
| **TOTAL FINANCIAL LIABILITIES** | - | 20,197,871 | | - | - | 20,197,871 |
| **GAP AS AT 30 JUNE 2013** | 17,112,404 | 310,278,395 | 878,910,411 | 1,226,168,536 | 535,497,933 | 2,967,967,679 |

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| AS AT 30 JUNE 2012 | Matured | <3 months | 3-12 months | 1 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and bank balances | 17,414,010 | - | - | - | - | 17,414,010 |
| Deposits with banks | - | 329,552,951 | 356,598,372 | - | - | 686,151,323 |
| Investments in securities held-to-maturity | - | 99,232,998 | - | 1,287,061,691 | - | 1,386,294,689 |
| Trade and other receivables | - | 22,592,219 | - | - | - | 22,592,219 |
| Equity investments at fair value through profit or loss | - | - | - | - | 78,291,687 | 78,291,687 |
| Investment securities held-for-trading | - | - | - | - | 20,870,429 | 20,870,429 |
| Loans and advances | - | - | - | 62,044,823 | - | 62,044,823 |
| **TOTAL FINANCIAL ASSETS** | 17,414,010 | 451,378,168 | 356,598,372 | 1,349,106,514 | 99,162,116 | 2,273,659,180 |
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade and other payables | - | 17,353,026 | - | - | - | 17,353,026 |
| **TOTAL FINANCIAL LIABILITIES** | - | 17,353,026 | | - | - | 17,353,026 |
| **GAP AS AT 30 JUNE 2012** | 17,414,010 | 434,025,142 | 356,598,372 | 1,349,106,514 | 99,162,116 | 2,256,306,154 |

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

### (c) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund loans and advances, trade and other receivables, deposits with commercial banks and investments in government and corporate bonds. For risk management reporting purposes, the Fund considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

**Management of credit risk**

The Board of Directors has delegated responsibility for the management of credit risk to its Management Investment Committee. The Investments Department is responsible for oversight of the Fund's credit risk, including:

- Formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting. Documentary, legal procedures and compliance with regulatory and statutory requirements is done in consultation with the Fund's Legal and Compliance Department.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Management Investment Committee. Larger facilities require approval by the Board of Directors as appropriate.
- Reviewing compliance of investment mix with agreed exposure limits, including those for selected industries, country risk and product types. The Fund's Investment Committee is responsible for monitoring the credit quality of investments and ensuring that appropriate corrective action is taken and providing advice, guidance and specialist skills to business units to promote best practice throughout the Fund in the management of credit risk.

The Investment Department is required to implement the Fund's credit policies and procedures, with credit approval authorities delegated from the Fund's Board of Directors. The Investment Department is responsible for the quality and performance of the Fund's investment portfolio and for monitoring and controlling all credit risks in the Fund's portfolio, including those subject to board approval.

Regular audits of the Investment Department and the Fund's credit processes are undertaken by the Internal Audit Department.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure as at the statement of financial position date was:

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

| | Note | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| Cash and bank balances | 13 | 15,376,671 | 17,414,010 |
| Deposits due from banks | 14 | 731,954,095 | 686,151,323 |
| Trade and other receivables | 16 | 16,244,417 | 22,592,219 |
| Investment securities held-to-maturity | 17 | 1,990,125,710 | 1,386,294,688 |
| Loans and advances | 19 | 45,299,752 | 62,044,823 |
| | | 2,799,000,645 | 2,174,497,063 |

The concentration of credit risk for loans at amortised costs as at the reporting date was:

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| DFCU Bank Limited: Loan for mortgage financing | 1,500,000 | 2,500,000 |
| Housing Finance Bank Limited | 40,727,357 | 43,560,238 |
| Uganda Clays Limited | 15,219,768 | 12,316,773 |
| Staff loans | 3,072,180 | 3,667,812 |
| | 60,519,305 | 62,044,823 |

The ageing of loans at amortized cost as at the statement of financial position date was as follows:

| | 30 June 2013 | | 30 June 2012 | |
|---|---|---|---|---|
| | Gross Ushs 000 | Impairment Ushs 000 | Gross Ushs 000 | Impairment Ushs 000 |
| Not past due nor impaired | 45,299,537 | - | 62,044,823 | - |
| Past due 30-60 days | - | - | - | - |
| Past due 31-120 days | - | - | - | - |
| Past due 120-360 days | 15,219,768 | (15,219,769) | - | - |
| More than a year | - | - | - | - |
| | 60,519,305 | (15,219,769) | 62,044,823 | - |

As at the reporting date, there was no impairment loss allowances in respect of held to maturity investments.

The concentrations of credit risk for trade and other receivables as at the reporting date by the type of receivables was as follows:

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| Rent receivable | 2,765,223 | 1,780,596 |
| Contributions receivable | 1,021,943 | 1,021,943 |
| Withholding tax claim refund | - | 3,425,512 |
| Staff debtors | 838,930 | 952,733 |
| Trade debtors | 16,052,723 | 14,799,222 |
| VAT recoverable | 1,099,556 | 3,611,728 |
| Prepayments | 878,853 | 1,102,658 |
| | 22,657,228 | 26,694,392 |

The ageing of trade and other receivables as at the reporting date was as follows:

| | 30 June 2013 | | 30 June 2012 | |
|---|---|---|---|---|
| | Gross Ushs 000 | Impairment Ushs 000 | Gross Ushs 000 | Impairment Ushs 000 |
| Neither past due nor impaired | 11,965,923 | - | 16,297,951 | - |
| Past due 0-30 days | 26,632 | - | 1,333,137 | - |
| Past due 31-120 days | 3,281 | 1,641 | 1,552,946 | - |
| Past due more than 120 days | 10,661,392 | (6,411,170) | 7,510,358 | (4,102,173) |
| | **22,657,228** | **(6,412,811)** | **26,694,392** | **(4,102,173)** |

Based on historical default rates, the Fund believes that no impairment allowance is necessary in respect of trade receivables not past due by 90 days.

The allowance account in respect of trade and other receivables (as per Note 16) is used to record impairment losses unless the Fund is satisfied that no recovery of the amount owing is possible. At that point the amount considered irrecoverable is written off against the financial asset directly.

## 38. FINANCIAL RISK MANAGEMENT (CONT'D)

### d) Categories of financial assets and financial liabilities

| | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| **Held-for-trading** | | |
| Investment securities held-for-trading | 35,313,327 | 20,870,429 |
| **Financial assets at fair value through profit or loss** | | |
| Equity investments | 153,851,580 | 78,291,687 |
| **Held-to-maturity investments** | | |
| Deposits with commercial banks | 731,954,095 | 686,151,323 |
| Investments in securities held-to-maturity | 1,990,125,710 | 1,386,294,688 |
| | 2,722,079,805 | 2,072,446,011 |
| **Financial assets at amortised cost** | | |
| Cash and bank balances | 15,376,671 | 17,414,010 |
| Trade and other receivables | 16,244,417 | 14,452,321 |
| Loans and advances | 45,299,752 | 62,044,823 |
| | 76,920,840 | 93,911,154 |
| **Total financial assets** | 2,988,165,552 | 2,265,519,281 |
| **FINANCIAL LIABILITIES** | | |
| **Financial liabilities at amortised cost** | | |
| Other payables | 5,396,917 | 6,375,107 |

## 39. CASH AND CASH EQUIVALENTS

| | Note | 2013 Ushs 000 | 2012 Ushs 000 |
|---|---|---|---|
| Cash and bank balances | 13 | 15,376,671 | 17,414,010 |
| Deposits due from banks within 3 months | 14 | 220,860,570 | 329,552,951 |
| Investments in securities held-to-maturity maturing within 3 months | 17 | 109,615,696 | 99,232,998 |
| | | 345,852,937 | 446,199,959 |

## 40. ESTABLISHMENT

The Fund was established in Uganda under section 2 of the NSSF Act (Cap 222).

## 41. SUBSEQUENT EVENTS

There were no events occurring after the reporting date which had an impact on the financial position or results of the Fund.