

**EAST AFRICAN COMMUNITY**

**AUDIT COMMISSION**



**AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL  
SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT  
(FSDRP) FOR THE YEAR ENDED 30 JUNE 2018**

**DECEMBER 2018**

02/01/2018

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## **LIST OF ABBREVIATIONS**

Throughout this financial report unless otherwise stated, the abbreviations in the first column have the meanings stated opposite them in the second column. These descriptions and explanations, however, serve to clarify this report and are not intended to be authoritative

|       |  |
|-------|--|
| CM    | - Common Market  |
| DSG   | - Deputy Secretary General                               |
| EAC   | - East African Community                                 |
| FSDRP | - Financial Sector Development & Regionalization Project |
| KSH   | - Kenya Shilling   |
| LPO   | - Local Purchase Order                                   |
| RWF   | - Rwanda Franc   |
| SG    | - Secretary General                                      |
| TMEA  | - Trade Mark East Africa                                 |
| TSH   | - Tanzania Shilling                                      |
| RSSP  | - Republic of South Sudan Pound                          |
| USH   | - Uganda Shilling  |
| VAT   | - Value Added Tax  |

## **1.0. STATEMENT OF PURPOSE**

### **1.1. Introduction**

The financial Sector Development and Regionalization Project is an East African Community regional project supported by the World Bank. The purpose of the project is to support the development of the financial sector integration through the establishment of a single market in financial services among EAC Partner States.

The first phase of the project became effective on 20<sup>th</sup> June 2011 with a total Grant of \$16 million. In September 2016, the World Bank approved additional financing of \$ 10.5 million to support the project for three years to September 2019.

The original grant was structured into six components while the additional financing merged the components to four. These are:

- a) Financial Inclusion and Strengthening of Market Participants;
- b) Harmonization of Financial Laws and Regulations;
- c) Institution Building and
- d) Project Management

### **Project Goal**

The project goal is to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC Partner States with a view to making a wide range of financial products and services available to all at competitive prices

### **Project Objectives**

The development Objective is to establish the foundation for financial sector integration among EAC Partner States. The higher level objective of the program is to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC Partner States, with a view of making a wide range of financial products and services available to all at competitive prices

### **1.2. Human Resource**

As at 30th June 2018, the FSDRP had the following human resource capacity:-

|                   |                  |                  |
|-------------------|------------------|------------------|
| <b>EAC- FSDRP</b> | <b>30/6/2018</b> | <b>30/6/2017</b> |
|-------------------|------------------|------------------|

|                 |           |           |
|-----------------|-----------|-----------|
| Project Staff   | 12        | 11        |
| <b>Subtotal</b> | <b>12</b> | <b>11</b> |

### **1.3. The Budget**

The Budget of the EAC - Financial Sector Development and Regionalization Project for the financial year 2017/18 was USD4, 730,000

### **1.4 Achievements during the year**

The following are the Project's achievements during 2017/18:

- The project was able to implement a total of 51 planned activities
- 5 Policy Papers developed and presented to the Executive and Steering Committees. Those policy papers are;
  1. EAC Retirement Benefits Policy;
  2. Insurance Policy;
  3. Draft EAC Microfinance Policy & Implementation Strategy;
  4. Financial Sector Capacity Building Policy and Implementation Strategy for Rwanda and Burundi; and
  5. Burundi Capital Market Policy.
- A draft EAC financial education implementation strategy developed.
- A draft EAC insurance certification implementation strategy developed.
- A draft EAC Banking Certification implementation strategy developed.
- A draft EAC Microfinance Policy and Implementation Strategy developed
- A draft EAC Insurance Bill and 21 corresponding regulations developed

## **2.0. CORPORATE GOVERNANCE STATEMENT**

The implementation of the project activities is vested with the Steering and Executive Committees. The FSDRP Steering Committee is responsible for providing Policy and strategic oversight to the project, while the Executive Committee is responsible for overseeing project operations. Meetings of the two committees will continue to regularly consider budgetary

strategy, assess project outcomes, monitor risks, make policy and resourcing decisions, and review requests for changes in project scope.

### **3.0 Risk Management and Internal Control**

#### **Overview of EAC's risk management framework**

The East African Community (EAC) is responsible for the risk management and internal control system of the project. EAC is committed to a process of risk management that is aligned to the principles of sound corporate governance recognizing that the management of risk is an important strategy for the achievement of the EAC Mission and supporting objectives. The project management is task to ensure that the adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations
- The safeguarding of the project assets
- Compliance with signed grant agreement and other applicable laws and regulations
- Reliability of accounting records
- Responsible behavior towards all stakeholders

#### **Approach to Risk Management**

A description of EAC's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is included in the EAC Risk Management Framework, Policy and Strategy (2011) and expounded as below.

The EAC's risk management framework is based on a well-established governance process, with different lines of defense and relies both on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process.

The EAC's internal audit function independently audits the adequacy and effectiveness of the EAC's risk management framework. The head of Internal Audit reports and provides independent assurance on the same to the Audit and Risk Committee and has unrestricted access to the Secretary General and the chairman of the Audit and Risk Committee.

#### **a) Operational risk**

Operational risk is the potential for loss resulting from the inadequacy of, or a failure in internal processes, people, systems or external events. The Project recognizes the significance of operational risk, and the fact that it is inherent in all business units.

#### **b) Occupational health and safety**

The health and safety of our employees, our partners and other stakeholders continues to be a priority. The Project seeks to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The Project continues to focus on ensuring compliance with current legal and regulatory framework and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

c) **Reputational risk**

Safeguarding the Project's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events.

The Community's strong reputation is dependent upon the way in which it conducts its business, but it can also be affected by the way in which its clients, to whom it provides services, conduct themselves.

Effective management of all operating activities is required to establish a strong internal control framework to minimize the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken.

#### **4.0 STATEMENT OF THE SECRETARY GENERAL'S RESPONSIBILITIES**

The Treaty for the Establishment of the East African Community and the Financial Rules and Regulations require the Secretary General to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Community. These annual financial statements have been prepared in accordance with **International Public Sector Accounting Standards**, under the **Accrual Basis of Accounting**.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgment and estimates. They have been presented to ensure comparability with the EAC annual financial statements of previous periods and with financial statements of other entities.

The statements have been prepared as general-purpose financial statements intended to provide information about the financial position, financial performance, and cash flows of the EAC-FSDRP that is useful to a wide range of users.

The Secretary General is responsible for establishing and maintaining a system of effective internal control designed to provide reasonable assurance that the transactions recorded in the books of accounts and reported in these annual financial statements are within the statutory authority and reflect with reasonable accuracy the receipt and use of public financial resources by the EAC-FSDRP.

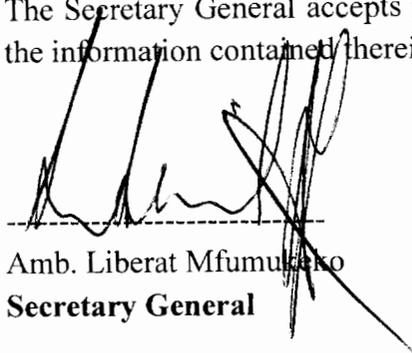
The Secretary General is responsible for and acknowledge the ultimately responsibility for the system of internal financial control established by the EAC and place considerable importance on maintaining a strong control environment. To enable the Secretary General to meet these responsibilities, the Secretary General sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures, and adequate segregation of duties to ensure an acceptable level of risk. To ensure that these controls are monitored throughout the EAC and all employees are required to maintain the highest ethical standards in ensuring the EAC business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the EAC is on identifying, assessing, managing and monitoring all known forms of risk across the Community. While operating risks can be fully eliminated, the Community endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The Secretary General is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that financial

records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. To the best of my knowledge, the system of internal control has operated adequately throughout the reporting period.

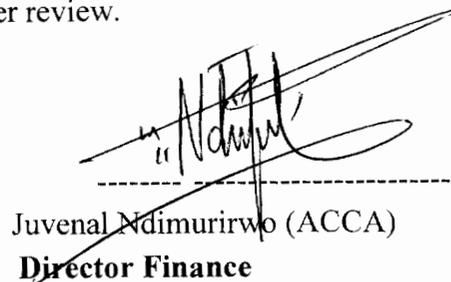
The financial statements set out on the pages below which have been prepared on a Going Concern Basis, were approved by the Secretary General on the date indicated below.

The Secretary General accepts responsibility for the integrity of the financial statements and all the information contained therein for the period under review.



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Amb. Liberat Mfumukero  
**Secretary General**



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Juvenal Ndimurirwo (ACCA)  
**Director Finance**

**REPORT OF THE AUDIT COMMISSION SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30 JUNE 2018**

**To: Chairman,  
Council of Ministers,  
East African Community.**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements on Sector Development and Regionalization Project (FSDRP) set out on pages 14 to 30, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of the audit.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sector Development and Regionalization Project (FSDRP) as at 30 June 2018, of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Treaty for Establishment of the East African Community, 1999.

**Basis for Opinion**

The audit was conducted in accordance with International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements of International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants and Article 134(4) of the Treaty for Establishment of the East African Community, 1999 and we have fulfilled our ethical responsibilities in accordance with these requirements and the ISAs. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon,

and we do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements.

### **Responsibilities of Management for the Financial Statements**

The Secretary General and the Project Coordinator (50 MWSP) are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards Regulations 78 and 79 of the East African Community Financial Rules and Regulations, 2012, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management are responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management intends to cease operations of the Project, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

### **Audit Commission's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

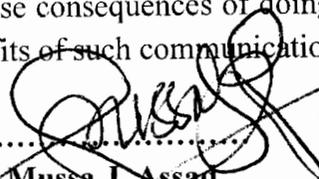
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Project to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the

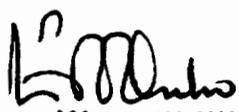
adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

  
.....  
**Prof. Mussa J. Assad**

CONTROLLER AND  
AUDITOR GENERAL OF  
THE UNITED REPUBLIC  
OF TANZANIA

Date.....

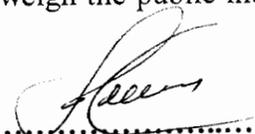
11<sup>th</sup> Dec 2018

  
.....  
**Mr. Edward R. O. Ouko**

AUDITOR GENERAL  
OF THE REPUBLIC OF  
KENYA

Date.....

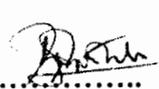
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.....  
**Mr. John F. S. Muwanga**

AUDITOR GENERAL OF  
THE REPUBLIC OF  
UGANDA

Date.....

11-12-2018

  
.....  
**Mr. Obadiah R. Biraro**

AUDITOR GENERAL OF  
THE REPUBLIC OF  
RWANDA

Date.....

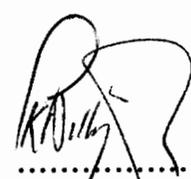
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.....  
**Ms. Générose Kiyago**

STATE INSPECTOR  
GENERAL OF THE  
REPUBLIC OF  
BURUNDI

Date.....

11.12.2018

  
.....  
**Amh. Steven Kilion Wonda**

AUDITOR GENERAL OF  
THE REPUBLIC OF SOUTH  
SUDAN

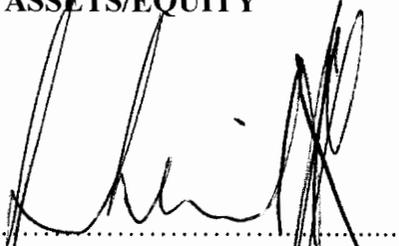
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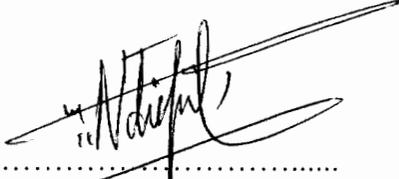
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**5.0 FINANCIAL STATEMENTS FOR THE EAC- FSDRP**

**EAC- FSDRP  
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

| <u>ASSETS</u>                                       | NOTES | 2017/18<br>USD   | 2016/17<br>USD |
|---|-------|------------------|----------------|
| <b>CURRENT ASSETS</b>                               |       |                  |                |
| Cash and Cash Equivalents                           | 1     | 415,121          | 75,530         |
| Receivables   | 2     | 66,404           | 26,225         |
| <b>TOTAL CURRENT ASSETS</b>                         |       | <b>481,525</b>   | <b>101,755</b> |
| <b>NON CURRENT ASSETS</b>                           |       |                  |                |
| Property, Plant and Equipment                       | 3     | 59,856           | 99,914         |
| Intangible Assets                                   | 4     | 777,247          | 777,247        |
| <b>TOTAL NON CURRENT ASSETS</b>                     |       | <b>837,103</b>   | <b>877,161</b> |
| <b>TOTAL ASSETS</b>                                 |       | <b>1,318,628</b> | <b>978,916</b> |
| <br><b><u>LIABILITIES AND NET ASSETS/EQUITY</u></b> |       |                  |                |
| <b>CURRENT LIABILITIES</b>                          |       |                  |                |
| Payables  | 5     | 75,959           | 430,768        |
| <b>TOTAL CURRENT LIABILITIES</b>                    |       | 75,959           | 430,768        |
| <b>TOTAL LIABILITIES</b>                            |       | 75,959           | 430,768        |
| <b>Total Net Assets/Equity</b>                      |       | <b>1,242,669</b> | <b>548,148</b> |
| <b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>      |       | <b>1,318,628</b> | <b>978,916</b> |

  
 .....  
 Amb. Liberat Mfumukeko  
**Secretary General**

  
 .....  
 Juvenal Ndimurirwo (ACCA)  
**Director Finance**

**EAC- FSDRP  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**EAC- FSDR PROJECT  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2018**

| <b>REVENUE</b>                                  |              | <b>2017/18</b>   | <b>2016/17</b>   |
|---|--------------|------------------|------------------|
| <b>Revenue from non Exchange Transactions</b>   | <b>NOTES</b> | <b>USD</b>       | <b>USD</b>       |
| Special funds from Development Partners         | 6            | 2,479,225        | 1,128,803        |
| <b>Total Revenue</b>                            |              | <b>2,479,225</b> | <b>1,128,803</b> |
| <b>EXPENSES</b>                                 |              |                  |                  |
| Salaries, Wages and Employee Benefits           | 7            | 908,129          | 1,005,000        |
| Administrative, Meetings & Consultancy Expenses | 8            | 1,527,477        | 41,778           |
| Finance Cost                                    | 9            | 762              | (191)            |
| Depreciation and amortization Expenses          | 10           | 42,857           | 82,216           |
| <b>TOTAL</b>                                    |              | <b>2,479,225</b> | <b>1,128,802</b> |
| <b>SURPLUS / (DEFICIT) FOR THE PERIOD</b>       |              | <b>-</b>         | <b>-</b>         |

**EAC- FSDR PROJECT**  
**STATEMENT OF CHANGES IN NET ASSETS/EQUITY AT 30 JUNE 2018**

| Description                      | Notes | Capital<br>Contribution / Grant<br>USD | Accumulated<br>Surplus<br>USD | Total Net<br>Assets /<br>Equity<br>USD |
|----------------------------------|-------|--|-------------------------------|--|
| At 1 July 2016                   |       | 171,641                                | 33,971                        | 205,612                                |
| Prior year adjustment            |       | 787,736                                | 564,706                       | 1,352,442                              |
| Surplus/deficit for the year     |       | (82,216)                               | (924,890)                     | (1,007,106)                            |
| As at 30 June 2017               |       | 877,161                                | (329,012)                     | 550,948                                |
| As at 1 July 2017                |       | 877,161                                | (329,012)                     | 550,948                                |
| Prior year adjustment            |       | 0.00                                   | (63,000)                      | (63,000)                               |
| Surplus / (deficit) for the year |       | (42,857)                               | 797,579                       | 754,722                                |
| At 30 June 2018                  |       | <b>834,304</b>                         | <b>408,366</b>                | <b>1,242,669</b>                       |

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2018**

| Description   | Note | 2017/18<br>USD | 2016/17<br>USD   |
|---|------|----------------|------------------|
| <b>Cash flows from operating activities</b>             |      |                |                  |
| Surplus / (Deficit) at the end of the year              |      | 754,722        | (1,007,106)      |
| <i>Adjustment for:</i>                                  |      |                |                  |
| Depreciation and Amortization                           | 10   | 42,857         | 82,216           |
| <b>Changes in working Capital</b>                       |      |                |                  |
| (Increase) / Decrease in Receivable                     |      | (40,179)       | (5,635)          |
| Increase / (Decrease) in Other Current liabilities      |      | (417,809)      | 427,806          |
| <b>Net Cash flows from operating activities</b>         |      | <b>339,591</b> | <b>(502,719)</b> |
| <b>Cash flow from investing activities</b>              |      |                |                  |
| Acquisition of fixed assets                             |      | 0.00           | 0.00             |
| <b>Cash generated from investing activities</b>         |      | <b>0.00</b>    | <b>0.00</b>      |
| <b>Net increase in cash and cash equivalents</b>        |      | <b>339,591</b> | <b>(502,719)</b> |
| <b>Cash and cash equivalents at beginning of period</b> |      | <b>75,530</b>  | <b>578,246</b>   |
| <b>Cash and cash equivalents at end of period</b>       |      | <b>415,121</b> | <b>75,530</b>    |

**EAC- FSDRP  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**EAC- FSDR PROJECT  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2018**

| Description                                     | Budgeted Amounts in USD |                  | Actual Amounts in USD | Difference: Final Budget and Actual (in USD) | Explanation of variances  |
|---|-------------------------|------------------|-----------------------|--|---|
|   | Original                | Final            |                       |  |   |
| <b>REVENUE</b>                                  |                         |                  |                       |  |   |
| Special funds from Development Partners         | 4,730,000               | 4,730,000        | 3,233,947             | 1,496,053                                    | Funds are release by World Bank based on the monthly Withdrawal Applications submitted by the project and the initial deposit upon effectiveness of the project |
| <b>Total Revenue</b>                            | <b>4,730,000</b>        | <b>4,730,000</b> | <b>3,233,947</b>      | <b>1,496,053</b>                             |   |
| <b>EXPENSES</b>                                 |                         |                  |                       |  |   |
| Salaries, Wages and Employee Benefits           | 1,112,000               | 1,112,000        | 908,129               | 203,871                                      | Delay in the recruitment of the project accountant and the CMI business analyst   |
| Administrative, meetings & consultancy Expenses | 3,618,000               | 3,618,000        | 1,527,477             | 2,089,968                                    | Delay in the implementation of the capital market infrastructure activities, pension study and financial education related activities                           |
| Financial costs                                 |                         |                  | 762                   |  |   |
| <b>TOTAL</b>                                    | <b>4,730,000</b>        | <b>4,730,000</b> | <b>2,436,368</b>      | <b>2,293,632</b>                             |   |
| <b>SURPLUS / (DEFICIT) FOR THE PERIOD</b>       | <b>0</b>                | <b>0</b>         | <b>797,579</b>        |  |   |

**EAC- FSDRP  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**STATEMENT OF SPECIAL ACCOUNT ACTIVITY FOR THE PERIOD ENDED 30<sup>TH</sup>  
JUNE 2018 NOTES TO THE FINANCIAL STATEMENTS**

| <b>Description</b>  | Note | <b>2017/18</b> | <b>CUMMULAT</b>   |
|---|------|----------------|-------------------|
|   |      | <b>USD</b>     | <b>IVE</b>        |
|   |      | <b>USD</b>     | <b>USD</b>        |
| Opening balance as at 1 <sup>st</sup> July 2017                                       |      | 81,692.70      | 81,692.70         |
| <i>ADD:</i>   |      |                |                   |
| Total amount Deposited by World Bank  |      | 3,233,947.45   | 3,233,947.45      |
| <i>DEDUCT</i>   |      |                |                   |
| Total amount withdrawn  |      | 2,804,524.98   | (2,804,524.98)    |
| <b>Closing Bank Balance as at 30<sup>th</sup> June 2018 as per<br/>Bank Statement</b> |      |                | <b>511,115.17</b> |
| <i>DEDUCT</i>   |      |                |                   |
| Un-presented cheques  |      |                | (95,993.60)       |
| <b>Balance as per cash book as at 30<sup>th</sup> June 2018</b>                       |      |                | <b>415,121.57</b> |

## **1.0 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

### **Basis of Accounting**

The accompanying financial statements have been presented on an accrual basis of accounting while the budget has been prepared using cash basis of accounting.

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Accrual accounting allows for revenue to be recognized when earned and expenses to be recognized when incurred. Budgetary accounting allows for compliance with the requirements for and controls over the use of Partner States Approved Budgeted funds.

### **Basis of Preparation**

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB).

When the IPSASB does not prescribe any specific standard, IFRSs and IASs are applied.

The financial statements have been prepared on a going concern basis.

The measurement base applied is historical cost.

The accounting policies have been applied consistently throughout the period. The principal accounting policies adopted are set out below.

### **Adoption of new and revised standards**

From July 2017 to 30 June 2018, there was no new IPSAS standard having an impact on these financial statements of the project

## **2.0 KEY JUDGEMENTS AND SOURCES OF ESTIMATION**

The preparation of financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses in conformity with IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

The key judgements management made in preparing the financial statements are as follows:

- The lives of intangible assets and property, plant and equipment are at least that set out in notes number 5.5 and 5.6.
- Key estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the period of revision and future periods.

### **3.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a. Donations and Grants**

The financial statements in conformity with IPSAS 23 – Revenue from Non-Exchange Transactions, require management to recognize liabilities from transfers with restrictions and/or conditions over the period of which economic benefits will be received from such transfers, with disclosure of such restricted contributions from Development Partners.

Most of the assistance given to EAC- FSDRP receives funds from World Bank which is considered as restricted contributions.

Restricted contributions are recognized as Revenue over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

On the Financial Statements for projects, receipts to financial annual budget are recognized as revenue for the year, and then Expenses are deducted. The surplus to the donor, which is Net Asset/equity for the Project, is thereafter disclosed on the Statement of Financial Performance as “attributable to Development Partners”, reported as deferred revenue on the Statement of Financial Position and adjusted from Net cash flow from operating activities on the Cash flow statement.

Grants related to assets are presented in the statement of financial position as deferred revenue, which is recognized as revenue on a systematic and rational basis over the useful life of the asset.

#### **Foreign Exchange rates**

The financial statements are prepared in conformity with IPSAS 4 – The Effects of Changes in Foreign Exchange Rates which requires management to disclose effects of foreign currency transactions in their financial statements.

In accordance with IPSAS 4 and related definition, the Presentation Currency of EAC, the currency in which its financial statements are prepared, is the United States Dollar. The United States Dollar is also the operating currency of EAC-FSDRP

The Functional Currency (ies) of EAC, the currency (ies) of the primary economic environment in which an entity operates – a country in which an entity primarily generates and expends cash is (are) the United States Dollar and the following currencies – Burundian Francs, Kenyan Shilling, Rwandan Francs, South Sudan pound, Tanzanian shilling and the Ugandan Shilling, for the six (6) EAC Partners States of Republic of Burundi, Republic of Kenya, Republic of Rwanda, Republic of South Sudan, United Republic of Tanzania and the Republic of Uganda respectively.

EAC- FSDRP has its Presentation currency, the United States Dollar, as its functional currency and hence uses the following procedure to translate its foreign currency transactions into the Presentation currency for reporting purpose –

- 1) monetary assets/liabilities are translated at current exchange rate
- 2) non-monetary assets/liabilities measured at historical cost are translated at historical exchange rate
- 3) non-monetary assets/liabilities measured at current value are translated at the exchange rate at the date when the current value was determined
- 4) Owners' interest accounts are translated at historical exchange rate
- 5) Revenues/expenses other than those expenses related to non-monetary items ( as in (i) (b) above) are translated at the exchange rate that existed when transactions took place (for practical reasons, average rates may be use)
- 6) Expenses related to non-monetary assets, such as depreciation (fixed assets) and amortization (intangible assets) are translated at the exchange rate used to translate the related assets.

Both realised and unrealised gains and losses resulting from the settlement of such transactions, and from the retranslation at the reporting date of assets and liabilities denominated in foreign currencies, are recognised in the Statement of Financial Performance.

The exchange rates used for the following reporting dates are as follow:

| <b>Currency</b>                | <b>30/6/2018</b> | <b>30/6/2017</b> |
|--------------------------------|------------------|------------------|
| 1 USD/KES (Kenya Shillings)    | 100.50           | 103.20           |
| 1 USD/TZS (Tanzania Shillings) | 2,255            | 2,218            |
| 1 USD/UGX (Uganda Shillings)   | 3,828            | 3,602            |
| 1 USD/BIF (Burundi Francs)     | 1,765            | 1,708            |

1 USD/RWF (Rwanda Francs)

855

838

Total amount of loss on foreign exchange was debited to the Statement of Financial performance.

**b. Property, Plant and Equipment**

Property, Plant and equipment are carried in the Statement of Financial Position at their historical cost.

Expenditure incurred to replace a component of item of property, plant and equipment is accounted for separately and capitalized while the major replaced component is derecognized. All other expenditure items which do not meet recognition criteria are recognized in the statement of Financial Performance as expenses as they are incurred.

EAC- FSDRP derecognises items of Property, plant and equipment and/or any significant part of an asset upon disposal or when no economic benefits or service potential is expected from its continuing use. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognised.

**c. Depreciation**

The financial statements in conformity with IPSAS 1 – Presentation of Financial Statement and IPSAS 17 – Property, Plant and Equipment recognize depreciation in the Statement of Financial Performance. Management charges depreciation to the Statement of Financial Performance on a straight-line basis to write off the cost of property, plant and equipment to their residual values over their expected useful lives.

Depreciation for Property, Plant and Equipment purchased during the year is apportioned proportionately to the remaining period of the year. Property, plant and equipment acquired during the year is depreciated from the date when it is available for use and cease to be depreciated at earlier of the date that the asset is derecognized.

Annual depreciation rates applied are as follows:

|                             | FY17/18 | FY16/17 |
|-----------------------------|---------|---------|
| Computer equipment          | 33.33%  | 33.33%  |
| Telecommunication equipment | 33.33%  | 33.33%  |
| Office equipment            | 25.00%  | 25.00%  |
| Office furniture            | 12.50%  | 12.50%  |

**d. Impairment of tangible and intangible assets**

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the Statement of Financial Performance in the year concerned.

**e. Intangible Assets**

Intangible assets relate to computer software. Software is amortized at 20% per annum on a straight-line basis if in use. Generally, costs associated with maintaining computer software programs are recognised as expenses when incurred.

**f. Taxation**

Article 4 Section (1) subsection (d) of the Headquarters Agreement between East African Community and the United Republic of Tanzania states that: “The Secretariat, its property, assets, income and transactions shall be exempt from all direct taxation including sales tax and from Customs Duties and prohibitions, restrictions on imports and exports in respect of articles imported or exported by Secretariat for its official use.

The Secretariat shall also be exempt from any obligation relating to payments, withholding or collection of any tax or duty provided that such assets and other property shall not be sold within the United Republic of Tanzania except in accordance with conditions agreed to with the Government”.

The EAC- FSDRP activities comply with the Headquarters agreement. The Grant agreement considers all expenditures incurred including taxes as eligible for accountability of the Grant purposes

**g. Cash and cash equivalents**

Cash and cash equivalents comprise cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**h. Presentation of Budget Information**

The financial statements in conformity with IPSAS 24 requires management of a public sector entity to show comparison of budget amounts arising from execution of the budget to be included in the financial statements of the entity which are required to, or elect to, make publicly available their approved budget for which they are, therefore, held publicly accountable. The

Standard also requires disclosure of an explanation of the reasons for material differences between budget and actual amounts.

The EAC- FSDRP Budget was approved on cash basis, with classification by nature, for a period of one year, i.e. 1st July 2017 to 30th June 2018.

EAC- FSDR Project prepares its financial statements clearly indicating the actual expenditure in comparison with the approved budgetary provisions and in so doing fully complies with this Standard.

#### **i. Related Parties**

The financial statements in conformity with IPSAS 20 requires EAC- FSDRP to show the aggregate remuneration of key management personnel and the number of individuals, determined on full time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class and the total amount of all other remuneration and compensation provided to key management personnel and close family members itemized separately.

During the year to 30th June 2018, the remuneration paid to Professional experts was US\$. 908,129,

#### **Financial Risks**

EAC-FSDRP is exposed to a variety of financial risks, including market risk (foreign exchange and price), liquidity and credit risks. EAC-FSDRP does not make use of financial derivatives to hedge its risk exposures.

##### **i. Foreign-exchange risk**

EAC- FSDRP receives donor grants in US Dollar and is thus not exposed to foreign-exchange risk arising from fluctuations in currency rates.

##### **ii. Liquidity risk**

EAC- FSDRP may not negotiate and use uncommitted short term bank credit facilities in the event of liquidity requirements. It can only seek assistance from the EAC Secretariat.

#### **j. Provisions, Contingent Liabilities and contingent Assets**

Provisions are constituted when EAC- FSDRP recognises a liability arising from a past event, for which it will probably have to bear the cost. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the date of the Statement of Financial Position.

There were neither contingent liabilities nor contingent assets as at 30<sup>th</sup> June 2018.

**k. Related-Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. In the case of EAC-FSDRP related parties have been taken to be:-

- i. key Project management experts, and close members of the family of these key management experts,
- ii. Key EAC management including the members of Executive and Steering Committees.

There was no material transactions with related parties during the financial year ended 30 June 2018.

**l. Events After the Reporting Period**

There were no events after the reporting date that warrants disclosure in the financial statements.

**4.0 ARITHMETICAL NOTES TO THE ACCOUNTS**

| Note # | PARTICULARS  | 2017/2018 (USD)                           | 2016/2017 (USD)                                 |
|--------|--|---|---|
| 1      | <b>CASH AND CASH EQUIVALENTS</b><br>WB-FSDRP   | 415,121                                   | 75,530  |
| 2      | <b>RECEIVABLES</b><br><br>VAT Claims: EAC- FSDRP is a tax-exempted entity. Where goods and services are invoiced including tax, an Application for Tax Refund is filed with the relevant Revenue authority<br>EAC Secretariat<br>Imprest to be accounted | 47,502<br><br>18,902<br><br><b>66,404</b> | 26,225<br><br>0.00<br>0.00<br><br><b>26,225</b> |

FINANCIAL STATEMENTS FOR THE FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30 JUNE 2018

| Note #   | PARTICULARS  |                           |                                |                         | 2017/2018 (USD)         | 2016/2017 (USD) |
|----------|--|---------------------------|--------------------------------|-------------------------|-------------------------|-----------------|
| <b>3</b> | <b>Property, plant and Equipment (United States dollars)</b> |                           |                                |                         |                         |                 |
|          | <b>Description</b>   | <b>Computer Equipment</b> | <b>Communication Equipment</b> | <b>Office Equipment</b> | <b>Office Furniture</b> | <b>Total</b>    |
|          | <b>Cost:</b>   |                           |                                |                         |                         |                 |
|          | As 1 July 2017   | 307,533                   | 32,790                         | 20,471,                 | 40,407                  | 401,200         |
|          | Additions  | 0                         | 0                              | 0                       | 0                       | 0               |
|          | Disposal/Adjustment  | 0                         | 0                              | 0                       | 0                       | 0               |
|          | <b>As at 30 June 2018</b>                                    | <b>308,815</b>            | <b>32,790</b>                  | <b>20,471</b>           | <b>40,077</b>           | <b>401,200</b>  |
|          | <b>Accumulated Depreciation:</b>                             |                           |                                |                         |                         |                 |
|          | As 1 July 2017   | 217,257                   | 32,581                         | 19,810                  | 28,838                  | 298,487         |
|          | Depreciation for the year                                    | 57,508                    | -15,418                        | -3036                   | 3,803                   | 42,857          |
|          | <b>As at 30 June 2018</b>                                    | <b>274,765</b>            | <b>17,163</b>                  | <b>16,774</b>           | <b>32,641</b>           | <b>341,344</b>  |
|          | Net carrying amount:   |                           |                                |                         |                         |                 |
|          | <b>As at 30 June 2018</b>                                    | <b>34,050</b>             | <b>15,626</b>                  | <b>1,744</b>            | <b>8,436</b>            | <b>59,856</b>   |

| Note # | PARTICULARS                               | 2017/2018 (USD) | 2016/2017 (USD) |
|--------|---|-----------------|-----------------|
| 4      | Intangible Assets( United States dollars) | US\$            | US\$            |

|   | Software Acquired | Total          |
|---|-------------------|----------------|
| <b>Cost:</b>                            |                   |                |
| As 1 July 2017                          | 777,247           | 777,247        |
| Additions/ Adjustment                   | 0                 | 0              |
| Disposal                                | 0                 | 0              |
| <b>As at 30 June 2018</b>               | <b>777,247</b>    | <b>777,247</b> |
| <b>Accumulated amortization:</b>        |                   |                |
| As 1 July 2017                          | 0                 | 0              |
| Amortization for the year               | 0                 | 0              |
| Adjustments to accumulated amortization | 0                 | 0              |
| <b>As at 30 June 2018</b>               | <b>0</b>          | <b>0</b>       |
| Net carrying amount:                    |                   |                |
| <b>As at 30 June 2018</b>               | <b>777,247</b>    | <b>777,247</b> |

FINANCIAL STATEMENTS FOR THE FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30 JUNE 2018

| Not e#    | PARTICULARS  | 2017/2018 (USD)  | 2016/2017 (USD)  |
|-----------|--|------------------|------------------|
| <b>5</b>  | <b>PAYABLES</b>  |                  |                  |
|           | Charleston travel Ltd                                      | 3,830            | 300,000          |
|           | Next Couriers & Logistics                                  | 390              | 0.00             |
|           | RwandAir Express   | 1,291            | 129,000          |
|           | UTB 2004 Ltd   | 48,352           | 1,768            |
|           | One off suppliers  | 5,736            | 0.00             |
|           | Salary payable   | 8,129            | 0.00             |
|           | Reimbursable expenses                                      | 8,230            | 0.00             |
|           | <b>SUB TOTAL</b>   | <b>75,959</b>    | <b>430,768</b>   |
| <b>6</b>  | <b>SPECIAL FUNDS FROM DEVELOPMENT PARTNERS</b>             |                  |                  |
|           | These are revenues from Non Exchange transactions          |                  |                  |
|           | Amount released from deferred income                       | 2,436,368        | 1,046,587        |
|           | Depreciation recycled from deferred income                 | 42,857           | 82,216           |
|           | <b>SUB TOTAL</b>   | <b>2,479,225</b> | <b>1,128,803</b> |
| <b>7</b>  | <b>SALARIES</b>  |                  |                  |
|           | Salaries   | 908,129          | 1,005,000        |
|           | <b>SUB TOTAL</b>   | <b>908,129</b>   | <b>1,005,000</b> |
| <b>8</b>  | <b>ADMINISTRATIVE, MEETINGS &amp; CONSULTANCY EXPENSES</b> |                  |                  |
|           | Leased Communication lines                                 | 56,604           | 29,807           |
|           | Conference facilities                                      | 140,412          | 1,609            |
|           | Air tickets staff and delegates                            | 277,958          | 1,234            |
|           | DSA Facilitation – Staff & delegates                       | 1,052,503        | 4,200            |
|           | Contracted professional Services, Consultancy              | 0                | 4,928            |
|           | <b>SUB -TOTAL</b>  | <b>1,527,477</b> | <b>41,778</b>    |
| <b>9</b>  | <b>FINANCE COST</b>  |                  |                  |
|           | Bank charges   | 762              | (191)            |
|           | <b>SUB-TOTAL</b>   | <b>762</b>       | <b>(191)</b>     |
| <b>10</b> | <b>DEPRECIATION AND AMORTIZATION EXPENSES</b>              |                  |                  |
|           | Computer Equipment   | 57,509           | 76,606           |

FINANCIAL STATEMENTS FOR THE FINANCIAL SECTOR DEVELOPMENT AND REGIONALIZATION PROJECT (FSDRP) FOR THE YEAR ENDED 30 JUNE 2018

| Not e#     | PARTICULARS   | 2017/2018 (USD)  | 2016/2017 (USD)  |
|------------|---|------------------|------------------|
|            | Telecommunication Equipment                           |                  |                  |
|            | Office Equipment                                      | -15,418          | 475              |
|            | Office furniture                                      | -3,038           | 5,134            |
|            | Intangible assets                                     | 3,804            | 0.00             |
|            | <b>SUB TOTAL</b>                                      | <b>42,857</b>    | <b>82,216</b>    |
| <b>11a</b> | <b>DEFERRED REVENUE GRANT</b>                         |                  |                  |
|            | Balance as at 1 <sup>st</sup> July                    | (954,936)        | (30,046)         |
|            | Amount received from world bank                       | 3,233,947        | 121,697          |
|            | Direct payments by world bank                         | -                | -                |
|            | Amount released to Statement of financial performance | (2,436,368)      | (1,046,587)      |
|            | <b>Balance as at 30<sup>th</sup> June</b>             | <b>(157,357)</b> | <b>(954,936)</b> |
| <b>11b</b> | <b>DEFERRED CAPITAL GRANT</b>                         |                  |                  |
|            | Balance as at 1 <sup>st</sup> July                    | 876,687          | 181,656          |
|            | Additions during the year                             | 0.00             | 777,247          |
|            | Depreciation recycled during the year                 | (42,857)         | (82,216)         |
|            | <b>Balance as at 30<sup>th</sup> June</b>             | <b>833,830</b>   | <b>876,687</b>   |