

The RiskEcho

Intriguing Insights

INTERVIEW:
MR. GEOFFREY
BARIGYE,
HEAD OF INTERNAL
AUDIT AT THE NSSF,
ON AUDITING

FOREWORD

2023 should be a breath of fresh air. The last three years have been extremely challenging, at both personal and business levels both locally and internationally. The key drivers for the volatile and hostile environment require no one's guess; the Covid-19 pandemic, which started in China towards the end of 2019, the Russia-Ukraine war, which broke out in February 2022, and, in the last quarter of 2022, the outbreak of Ebola in Uganda, which had claimed 55 lives by the time I wrote this article in December 2022.

I, therefore, would like to take this opportunity to wish all our readers a happy new year, 2023. I pray and hope that there shall never be such a pandemic as Covid-19 again in our lifetime. I also congratulate our readers for having gone through the most challenging time of our generation. So many things have changed, and the world will never be the same. As it was always said during the pandemic, it is a "new normal".

One of the new normals is the massive adoption of technology, especially online technology. It is now common, for the first time, in this part of the world, to see several organizations and individuals holding meetings online on Zoom, Teams, etc. Online technology for meetings has broken many barriers, including distance, time, and space.

In this issue of The Risk Echo, our guest, Mr. Geoffrey Barigye, the Head of Internal Auditor at the National Social Security Fund, talks about the role of internal audit, how changes in technology have impacted the auditing profession, and the new trends that are likely to shape the future of internal audit.

Geoffrey is a finance and audit professional with over 25 years of experience in accounting, auditing, leadership, coaching and mentoring, in the public and private sectors. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) of UK, a member of the Institute of Certified Public Accountants (CPA) of Uganda, and a member of the Institute of Internal Auditors.

In addition to the interview, you will find intriguing and captivating articles such as the enemy within, dealing with insider risk, the evolving role of the Chief Information Security Officer, how companies can survive in an ever-changing business environment, Risk is another constant, and many more. Thank you for taking the time to read The Risk Echo.

Edward Senyonjo

Chief Risk Officer, and Chief Editor, The Risk Echo magazine, National Social Security Fund

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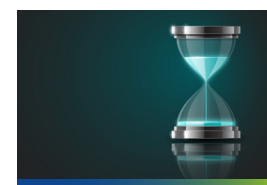
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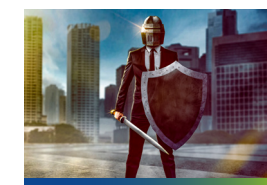
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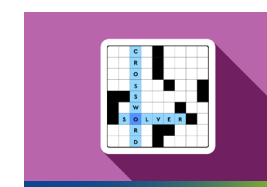
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Q & A

WITH
MR. GEOFFREY BARIGYE,
HEAD OF INTERNAL AUDIT AT THE NSSF
ON AUDITING

QN: Mr. Geoffrey Barigye, thank you for accepting our interview. Kindly tell our readers who Geoffrey Barigye is and what your role is at the National Social Security Fund (NSSF).

I'm a finance and audit professional with over 25 years of experience in accounting, auditing, leadership, coaching and mentoring in the public and private sectors.

I'm a Fellow of the Association of Chartered Certified Accountants (FCCA), a member of the Institute of Certified Public Accountants (CPA) of Uganda, and a member of the Institute of Internal Auditors.

Currently, I serve as Head of Internal Audit at the NSSF. I lead a team that provides independent and objective assurance to the Board and Management on internal controls, risk management and governance processes, while ensuring that any areas of improvement are highlighted, and value-adding recommendations made. I'm a family man and a Christian by faith.

QN: In brief, what does it take to become a professional auditor?

To become a professional auditor, one must attempt and pass professional accountancy examinations, attain significant auditing experience, and exhibit a high level of integrity.

QN: Briefly describe what auditing is and the difference between internal and external audits.

The term audit is derived from a Latin word audire, which means to hear the authenticity of accounts, is assured with the help of an independent review.

“Auditing is a systematic examination of the books of records of a business or other organization in order to ascertain or to verify, and to report upon the facts regarding its financial operations and the result thereof”.

– Prof. Montgomery

An audit may be external or internal. Internal Audit (IA) is a continuous audit activity performed by the internal audit department of the organization. An external audit is an examination and evaluation by an independent accountant, of the annual accounts of an entity to give an opinion thereon.

In addition, the scope of internal audit is decided by those charged with governance like the Board of Directors, while the scope of external audit is determined by law.

Although they are independent of the activities they audit, internal auditors are integral to the organization and provide ongoing monitoring and assessment of all activities.

On the contrary, external auditors are independent of the organization and provide an opinion on the financial statements. The work of the internal and external auditors should be coordinated for optimal effectiveness and efficiency.

External Auditors may rely on the work of the internal auditor if they think fit, but it does not reduce the responsibility of the external auditors.

In the context of the NSSF, the Internal Auditor is appointed by the Board of Directors, while the External Auditors are appointed by the Auditor General of the Republic of Uganda.

QN: To some, an audit is a postmortem exercise, looking at past events. How does auditing add

value to a business?

Traditionally, IA has been viewed as a postmortem exercise. However, this perception has significantly changed with the current definition of internal auditing as an independent, objective assurance and consulting service designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

In the words of A.K. Chandra, *“Audit is not an inquisition, and its mission is not one of fault finding. Its purpose is to bring to the notice of the administration lacunae in the rules, regulations and lapses, and to suggest possible ways and means for the execution of plans and projects with the greater expedition, efficiency and economy”.*

In the context of the Fund, IA adds value by evaluating internal controls, risk management and governance processes and makes recommendations for:

- Operational and quality effectiveness.
- Business and/or process controls.
- Process and business efficiencies.
- Cost optimization and waste reduction.
- Effective corporate governance.

In line with best practices and the dynamic environment, Internal Audit has also embraced continuous auditing and Agile auditing in order to respond faster and add more value to the business.

QN: Compare and contrast the evolving concept of continuous auditing as opposed to traditional periodic auditing.

Continuous auditing is an automated, rule-based,

and data—analytics approach used by auditors to perform audit—related activities on a continuous or continual basis. On the other hand, traditional periodic auditing focuses on;

i) Snapshot of a business at a specific moment in time.

ii) Auditing a sample of transactions and information.

iii) Manual audits that require a lot of manpower.

Traditionally, fraud and abuse are detected after the event, and sometimes long after the possibility of financial recovery. However, by monitoring transactions continuously, organisations can reduce the financial loss from these risks.

In the NSSF, our continuous auditing programme typically includes the monitoring of key performance indicators, controls, transactions or activities, and investigation of potentially inappropriate activities that have been detected.

In order to enhance effectiveness in auditing, the IA is in the process of automating and implementing a system for continuous auditing by end of 31st December 2022.

QN: One of the cardinal principles of an auditor is that he/she should be independent of management to ensure objectivity. Explain the kind of environment that promotes the independence of an internal auditor.

Independence and objectivity are two critical components of an effective internal audit activity.

The audit charter should establish the independence of the Internal auditor through the dual reporting relationship between management and the Board.

Specifically, the chief internal auditor should administratively report to executive management, and functionally to the audit committee of the Board, for strategic direction, reinforcement, and accountability.

The internal auditors should have access to records and personnel as necessary and be allowed to employ appropriate probing techniques without impediment.

In order to maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an unbiased and impartial mindset in regard to all engagements.

In the NSSF, the internal audit team has developed a framework under which the Audit function has a mandate through a written audit charter that establishes its purpose, authority, and

responsibility to support its independence and objectivity within the Fund.

QN: The conventional practice is that the Chief Internal Auditor reports to both, the Board and the CEO. What is the significance of this dual reporting role of the Chief Internal Auditor?

As I mentioned above, the best practice requires that the internal audit function should have a dual reporting relationship. The Chief Internal Auditor should report to executive management for assistance in establishing direction, support, and administrative interface, and to the organization's most senior oversight body, the audit committee for strategic direction, reinforcement, and accountability.

Appropriate reporting relationships are critical if internal audit is to achieve the independence, objectivity, and organizational stature necessary to fulfil its obligations and mandate to effectively assess internal controls, risk management, and governance.

QN: Internal auditors are perceived to be always looking for imperfections in business processes and are sometimes regarded as obstacles to progress. How is the situation in the NSSF, and if it is not the case, how have you been able to change the perception?

While the role of internal auditors may seem obvious, in some instances, it is seen as a function that only identifies things that are already broken or wrong. It is, however, a wrong perception to say that internal auditors always look for imperfections in business processes.

In the NSSF, we have moved beyond this, with most stakeholders viewing Internal Auditors as partners. In addition, IA is providing internal consultancy to Management and the Board. IA has consistently and continuously sensitised and engaged process owners on strengthening internal controls and improving compliance with both policy and legal frameworks.

QN: In the past few years, the concept of “combined assurance” has been gaining popularity. Explain to our readers, the concept, and the benefits of combined assurance.

Combined assurance can be defined as a process of integrating, coordinating, and aligning the risk management and assurance processes within the organization to optimise and maximise the level of oversight over the organizations' risk landscape, governance and control processes.

Combined assurance is about assurance providers, both internal and external, working more closely together to ensure that assurance is provided on



the key outcomes, and resources within the most cost—effective way possible.

In line with our Internal Audit Strategic Plan 2021–25, we are developing a combined assurance model that will enable us to have coordinated assurance activities, cultivate a planned approach to assess the extent and adequacy of assurance coverage on key risks.

QN: Technology impacts every aspect of our lives and business, the auditing profession inclusive. The illiterates of today and tomorrow are those who can't use technology. How are you coping with the changes in technology, to the extent that they impact or are likely to impact your profession?

Yes, the impact of technology cuts across all businesses and professions, internal audit inclusive. As Internal Audit, we have embraced technology. For example, our audit management process has been automated from planning to reporting.

In addition, we are specifically responding to the call by developing expertise in auditing IT systems from a security perspective, including data security, network security and access management. We are also embracing big data analytics, machine learning and artificial intelligence, to prepare ourselves for a technology—based future.

QN: What are the emerging trends that are likely to shape the future of internal audit?

Like any other profession, the future of IA is being shaped by some of the following emerging trends;

Technological advancements, such as robotic process automation and machine learning, are changing the business world rapidly. Many organizations, including the NSSF, have embarked on this journey of digitalization and intelligent automation. As Internal Audit, we must remain alert and aware of the associated risks and governance responsibilities when embarking on digital transformation projects. We are assessing appropriate governance and control frameworks over digital processes and systems.

Management teams across organizations recognize the opportunities and risks, mainly the Environmental, Social and Governance (ESG) risks it presents. To make informed decisions, directors must have reliable assurance from the IA function on the effectiveness of ESG management, including governance, risk assessment, key performance indicator (KPI) monitoring, and reporting.

Digitization is increasingly becoming vital for a business's success, and companies are continuing and, in many cases, accelerating their digital journey. We are witnessing increased use of robotic process automation (RPA) and artificial intelligence (AI) to support optimization, further use of cloud technologies, and the evolution of cyber strategy to combat emerging threats.

Business leaders responsible for governance need to partner with the IA function to manage

technology.

IA should continuously review existing processes to assess whether management has considered the critical threats posed by the constantly evolving IT environment and assess the implementation of revised cyber security models, such as multi-layered defence mechanisms, enhanced security breach detection, and data encryption methods.

Digitization is increasingly becoming vital for business success, and companies are continuing and, in many cases, accelerating their digital journey.

QN: Like any other role, internal audit must have a number of challenges. What are the key challenges you encounter and how do you address them?

Traditionally, there is a wrong perception by some audit clients to assume and think that IA is responsible for fraud detection and catching thieves, as well as policing.

In the NSSF, the IA team has conducted continuous sensitization of key stakeholders to change the wrong perception, while closely engaging some key stakeholders like the process owners.

Secondly, auditing in a dynamic environment poses several challenges, one of them being that some of the recommended improvements

in controls may not stand the test of time, as the environment changes rapidly.

The solution lies in continuous auditing explained above, which helps the auditor to keep abreast with the changes in the environment, and therefore, provide relevant advice as regards control improvement.

Thirdly, in some organizations, the independence of the internal auditor is compromised, as he/she is assigned management roles such as risk management. This compromises the auditor's objectivity when it comes to providing assurance on the effectiveness of risk management. The role of internal audit as regards risk management is to evaluate management's effectiveness in identifying, assessing, and mitigating risk.

Fourthly, like any other profession, there are continuous technological changes and work disruptions that affect the internal audit. In response, we are investing heavily in specialized training to cope with the changes, and respond to the dynamic IT environment and disruptions.

QN: Any other key information you would like to pass on to our readers?

I thank all our key stakeholders who have supported and enabled us to execute our mandate as Internal Auditors.

We register our special thanks to the Board of Directors, Management and the entire Fund staff.

A Prosperous New Year, 2023.



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THE DEVIL WITHIN: DEALING WITH INSIDER RISK

Insider risk is one of the most challenging risks to deal with because it is perpetuated by one or several people who have legitimate access to an organization's network and systems and are knowledgeable about the inherent limitations of the internal controls of the organization. Such people include employees, contractors, business partners, vendors, etc.

Insider risk refers to the potential for a person to use authorized access to the organization's assets, either maliciously or unintentionally, in a way that negatively affects the organization. Access includes both physical and virtual (cyber), and assets include information, processes, systems, and facilities.

Employees of an organization are in a privileged position to have access to all the organization's information and other assets, which knowledge they can use to manipulate the processes, systems, procedures and products, or misappropriate the organization's assets for personal gain. Insider risk can also materialize out of inadvertent actions of employees when executing their legitimate tasks.

Types of insider risk

Before I explain how insider risk can be effectively managed, it is important to know the different ways insider risk manifests and what drives it.

Insider risk manifests in the following ways:

i) Malicious insider

A malicious insider knowingly and intentionally steals or manipulates data or misappropriates company assets. For example, an employee or contractor may exfiltrate valuable information (like Intellectual Property (IP), Personally Identifiable Information (PII), or financial information) for some kind of financial incentive or with a malicious intention to dent the image of the organization or as vengeance against an employee(s) of the organization.

ii) Negligent insider

Negligent insiders are just your average employees who have made a mistake. For example, an employee could send an email containing sensitive information to a wrong person, or email company data to personal accounts to do some work over the weekend or fall victim to a phishing or spear phishing attack or lose their work device, etc.

Drivers of insider risk

The drivers of insider risk vary according to the type of insider risk, that is, whether it is malicious or negligent insider risk.

The drivers for malicious insider risk include but are not limited to:

i) Financial motive

It's no secret that money is a huge motivator for malicious insiders. Employees or other associates experiencing financial hardship may abuse their positions

for financial gain. Insiders may feel driven to execute an attack if they are paid a low wage, lack critical benefits, or are highly indebted.

ii) Emotional disorientation

Unengaged, bored, depressed, or angry employees may feel motivated to attack their organization. As the saying goes, "an idle mind is the devil's workshop." Because emotions can be strong sometimes, these employees are at a high risk of acting maliciously. Employees may receive a poor performance review or have a fight with their superiors or get laid off; all of which can cause emotional disorientation, resulting in an insider risk.

iii) Espionage

Although state-sponsored insider risks are not that common, there are instances where employees will execute politically motivated cyberattacks to undermine state authority in the interest of a political party of their choice. This type of motivation is also linked with corporate espionage, which can also be damaging, especially if employees share company trade secrets or other sensitive information.

The following factors drive negligent insider risk:

i) Lack of knowledge and/or skill

Some insiders may not be tech-savvy or have the skills necessary to follow the best cybersecurity practices or other operational practices. This lack of knowledge can increase the risk of an employee committing errors, resulting in financial loss or poor service delivery. For example, employees might think it's safe to use public Wi-Fi, but this can create security vulnerabilities. They do this unintentionally, but their actions may create more risks for the organization.

ii) Misplaced or misused devices

With remote-work models taking the business world by storm, it's no surprise that some employees will misplace their devices, such as laptops, tablets, or smartphones. Additionally, some employees may leave the devices where they can be accessed by children, who may damage the device and/or delete certain critical documents/files.



Insider risk is a highly complex risk because it is perpetuated by people who have full knowledge of the organization's internal control systems, and they are in a better position to circumvent them.



Furthermore, employees may leave such devices unattended in public places, where they can be stolen, and confidential information is accessed by unauthorized persons.

How to deal with insider risk

How can your company improve its insider risk prevention tactics with all of these insider risk motivations in mind? Below, I explore some basic strategies that can help prevent potential insider risks.

i) Coordinate HR and IT departments

HR and IT departments should work together to identify employees who pose risks to the company. For example, if an employee is laid off, the IT team must be notified of the change immediately, so that they can de-activate the employee's access to anything on the company's network. Organizations should consider bridging the gap between HR and IT to reduce insider risks.

ii) Prioritize employee cybersecurity training

Educate employees about critical cybersecurity practices they should adopt. It's also important to encourage the team members to anonymously report any suspicious peer interactions that could become a more serious insider risk.

iii) Use digital cybersecurity solutions

There are many cybersecurity solutions on the market worth investing in. For example, user behavior analytics (UBA) solutions can help with insider risk detection and prevention.

iv) Have an incident response plan

Because an insider risk can still harm your company despite those measures, it's crucial to formulate an incident response plan to reduce downtime and minimize any potential damage.

Conclusion

Insider risk is a highly complex risk because it is perpetuated by people who have full knowledge of the organization's internal control systems, and they are in a better position to circumvent them. Those charged with governance of the entity should be aware of this kind of risk and put in place mechanisms that provide early warning signals before the materialization of the risk. If an insider risk materializes, management should take swift corrective measures that can act as a deterrent against the future occurrence of similar risks.



Stephen Babigumira

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THE EVOLVING ROLE OF A CHIEF INFORMATION SECURITY OFFICER [CISO]

Data breaches or cyber-attacks were not so common in the past. However, in the contemporary world, cyber-attacks have become a common place and a major concern for business executives. According to the CEO survey 2022 by PwC, cyber-attack was the number one concern of most of the respondents. In Uganda, some of the recently published cyber incidents happened at National Water & Sewerage Corporation, and Joint Clinical Research Centre.

The cyber-attacks and the consequential financial loss due to payment of ransoms arising from data breaches have driven change in the way organizations perceive and manage information security. Information security, which used to be regarded as a mere technology issue, is now recognized as a strategic business concern, that companies need to take as a priority.

This is manifested in the way companies are spending on securing their information systems and the data therein. According to Kaspersky, a global cybersecurity and digital privacy company, global cybersecurity spending in 2021 was \$262.4 billion and was estimated to be nearly \$460 billion by 2025.

The job of a CISO is one of the most complicated jobs in information and related technology. The CISO must balance between allowing users to have access to sensitive data and protecting the same data from unauthorized access, so as to attain the three main objectives of information security management, which are availability, confidentiality and integrity of data. Attaining those objectives in the contemporary world requires a great deal of skill and expertise in defending the business against relentless attacks from sophisticated cyber criminals.

Due to the recognition of its strategic role, information security is being taken out of the boundaries of IT, to be an independent function that looks at security from a business perspective, encompassing processes, people and technology. This trend is likely to continue, as the importance of information to organizations continues to grow. At the same time, we are seeing an increase in information security investments by companies, as a measure to fend off threats towards their valued information assets.

The shift has also extended towards the governance of information security.



A new executive position with the responsibility of overseeing a company's information security efforts has emerged. The Chief Information Security Officer (CISO) is the new top management official responsible for an organization's information security. Previously, the person in charge of information security, probably an Information Security Manager (ISM), long lived in the shadows of the Chief Information Officer or IT department, where service availability and system functionality took priority over security.

The ISM is not able to lead and build a security culture in this kind of arrangement. He/she is viewed as a technical leader, as opposed to an executive leader. He/she is a sacrificial lamb, seen as the "Cyber Incident Scapegoat Officer". Once a breach happens, companies resort to apportioning blame on the ISM, for failing to detect and prevent a cyber-attack, and yet he/she has limited authority, which curtails his/her ability to influence the direction of how information security is governed. As a result, many are relieved of their duties following a successful cyber-attack.

Protecting customers' interests and the company's brand is very important because they have much bigger consequences for a company's financial status in case of a breach.

However, many organizations that are heavily dependent on technology are beginning to recognize the pivotal role of information security as regards the availability, confidentiality, and integrity of information. With this recognition, the role of an Information security manager is becoming prominent and has been elevated to Chief Information Security Officer, which is an executive position.

Having a CISO has become a standard and good governance practice. The Global State of Information Security Survey 2018 (GSISS), a joint survey conducted by PwC, the CIO, and CSO magazines, indicated that 85% of businesses have a CISO or equivalent. The role of the CISO has expanded beyond managing technology risks to also include focusing on information risks in business processes, customer privacy, people, etc. The report also noted that the reporting lines for CISO have greatly changed. In 2019, only 24% of CISOs or ISMs reported to the Chief Information Officer (CIO), 40% reported directly to the CEO, and 27% reported to the board.

Furthermore, changes in regulations such as the General Data Protection Regulation (EU GDPR), the Data protection and privacy Act, 2019 of Uganda etc, which require companies to have appropriate security initiatives for the protection of data, have seen the role of CISO emerge as a critical one for managing information security and advising management on cyber risks to ensure compliance with the relevant laws. The CISO serves as a spokesperson for the information security program, keeping senior management and the board of directors informed of emerging threats and information risks, and addresses concerns expressed by auditors, vendors and the business.

Different organizations have different reporting lines for the CISO; however, the best practice is that the CISO reports to the CEO. This ensures that information security is given the desired attention at a strategic level, such that efforts are directed towards the most critical information assets that have the biggest impact on the organization's operations, revenue, and reputation. In The Wall Street Journal (Oct 20, 2015), Matt Aiello and Phil Schneider Meyer state that, "To whom CISOs report and what access and influence they have, are as important as their qualifications and experience. The role must be senior enough for the CISO to gain the respect of C-level executives and the board".

As cyber-attacks and data breaches increase in frequency and sophistication, the CISO role continues to be very critical in managing information security risk, coordinating, and managing the company's information security strategy.

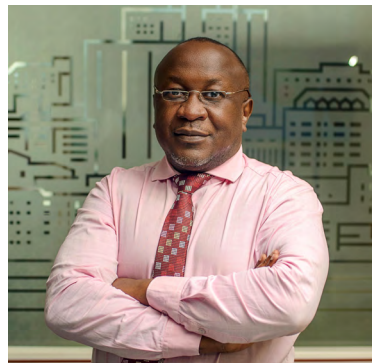
However, the CISO should note that having a good understanding of the company's business operations and approaching information security from a business perspective, is the key to implementing a successful information security program that ensures the company's information assets are well protected against attacks, and that the company is able to continue its operations in case of an attack. Protecting customers' interests and the company's brand is very important because they have much bigger consequences for a company's financial status in case of a breach.

As a CISO, you will have many responsibilities. Typically, you will oversee the implementation of all the security policies and procedures for your company. You must be up to date with the latest trends and technologies in the cyber security space, know how cybercriminals are behaving, and have good leadership and mentoring skills to develop your team and be able to communicate candidly with the board and senior management to get their buy-in.



Information Security Team analyzing risks

RISK IS ANOTHER CONSTANT



Edward Senyonjo

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Heraclitus, a Greek philosopher, coined the expression, “Change is the only constant”. He meant that the world and everything in it is constantly changing from time to time. The sun rises in the east every morning and sets in the west every evening, rivers have been flowing for millions of years, animals are born, they grow and die; plants germinate, they grow and die; non-living things wear out or are transformed from one state to another; weather changes from time to time; sometimes it is rainy, sunny, or windy. Economic factors such as inflation, interest rate, exchange rate, GDP, etc, change from time to time; people change their ways of life, behaviour, knowledge, skills, relationships, etc., from time to time. Technology changes. Everything changes from time to time; indeed, change is a constant.

Some changes are gradual, like the growth/development of human beings, while others are rapid or sudden such as engine combustion or bomb explosion.

Note that one key consequence of these changes is “risk”, and since change is constant, then I believe that risk is another constant, which is a departure from Heraclitus’s postulation. Risk emanates from changes in the environment, and since change is a constant factor, then risk is omnipresent.

Risk is always present everywhere, in one form or another. There is nothing you do, say, see, hear or you don’t do, say, see or hear, under the sun, that has no risk associated with it! The risk may vary in terms of nature, likelihood, or occurrence, but what remains constant is that there is always a risk to everything.

Risk is something that affects every aspect of our lives; be it financial, health, social or spiritual. ISO31000 defines risk as the effect of uncertainty



The solution for minimizing the likelihood of the risk will depend on the factors that drive that risk, such as the mechanical condition of the car and the physical condition of the road, in case of the risk of a car accident.

on an objective, whether positive or negative.

Can risks be eliminated? Yes, sometimes they can, but only to create others! As the saying goes, “you cannot solve a problem without creating another”.

Elimination of one or several risks results in the creation of another or other risks. For example, when you deploy technology to improve service delivery, you are creating opportunities for cyber-attacks. When you upgrade a marram road to tarmac, in order to ease transportation, you give an incentive to motorists to speed, resulting in increased road incidents. When you buy a car to minimize your inconveniences in travel, you introduce a new personal expenditure relating to car maintenance and the risk of motor accidents. Indeed, risk is a constant.

Having appreciated that risk is a constant, that affects our objectives and dreams, as well as all activities that we engage in, we need to pay special attention to risk and risk management, even at a personal level.

For those of us who are in the corporate world, we are very good at assessing risks relating to the activities of our organizations and do little to identify, assess and treat risks at a personal level. That notwithstanding, I am aware that oftentimes we undertake risk management unconsciously in many things that we do. For example, when you wake up in the morning, brush your teeth, take a shower, and dress up; you are not doing these activities for pleasure, you are trying to mitigate certain risks, which include cavity/loss of teeth, bad odor and embracement for appearing naked in public, respectively. When you take breakfast, lunch, or supper, you are mitigating the risk of hunger. When your parents took you to school, they wanted to mitigate the risk that you might not be prepared enough to handle appropriately future world challenges that you would encounter, if you were not educated. What about going to your

office or shop or garden every day to work? Is it for pleasure? I would say no; you are doing this in order to manage the risk of inability to provide for yourself and your family. Essentially, everything we do is geared toward mitigating a certain risk(s).

Yes, we have done well in mitigating a number of risks, but the challenge with this is that it is reactionary. In this article, I would like to talk about a systematic way of managing personal risks, especially those that relate to key decisions we make in life.

For every key decision, you are making, always ask yourself the following critical questions:

i) What could possibly go wrong?

ii) What is the likely impact?

iii) How do I minimize the likelihood and/or impact?

How well you answer these questions will, to a great extent, determine whether you make the right decision or not. The first question enables you to identify the nature of the risk/problem. The first step in effective risk management is to identify the risk. In military warfare, understanding who your enemy is, their capability, their motive and their location, is the first step in winning the war.

Considering the first question, there could be many answers, therefore, you have to prioritize them based on the level of severity, whereby the one with the highest severity or impact is given priority. That brings me to question number **(ii)– impact.**

The risk could have different types of impacts, that is, financial, physical, social, technological, mental, spiritual, etc. The nature or kind of impact is very important because it has a bearing on the solution, that is, how you are going to mitigate the risk or minimize the risk impact; which brings me to question **(iii)– How do I minimize the likelihood or impact of the risk?**

The likelihood of occurrence of risk is influenced by several factors, e.g in the case of a car accident, the mechanical condition of the car, the calibre of the driver (experienced/learner) and their mental and physical state, condition of the road, etc. These will greatly influence the likelihood/chance of occurrence of the accident. The nature of impact depends on the nature of the risk; as I said before, the impact could be financial, physical, social, health, mental, etc. What is important also is to understand the level of impact, which we refer to as severity. For all the identified impacts, you need to undertake an assessment and determine which ones are low, medium or high impact; whereby priority should be given to the ones with high

severity.

The solution for minimizing the likelihood of the risk will depend on the factors that drive that risk, such as the mechanical condition of the car and the physical condition of the road, in case of the risk of a car accident. The important point to note here is that for you to be able to effectively minimize the likelihood of the occurrence of a risk, you must understand and respond appropriately to the factors that drive/cause the risk. This is a proactive approach, which is highly recommended.

I believe at this point you are like, gosh! Am I going to spend the whole day thinking about a decision I must make in a few minutes? No, not at all! You know, our brains work in a mysterious way; it is capable of handling several tasks concurrently. So, it all depends on your will, otherwise, your machine (the brain) does not need the entire day to answer those three questions.

Conclusion

It is important to note that risk is a constant, and that to every objective, there is always a risk, and to every decision, there is always a risk. The best way to manage risk is to, first of all, identify the nature of the risk followed by an assessment of the likelihood and impact of the occurrence of the risk, and then a determination of the appropriate response or treatment of the risk.





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HOW COMPANIES CAN SURVIVE IN AN EVER-CHANGING BUSINESS ENVIRONMENT.

The business environment in the contemporary world is very volatile, and companies face storms like ships sailing on the ocean. At the beginning of the Covid-19 pandemic, towards the end of 2019, Top Glove Corp., a Malaysian manufacturer of protective gear, saw its share price rise rapidly. During the pandemic, its stock price soared to 450% through the first seven months of 2020. Top Glove Corp. grew bigger than Malaysia's banks, telecommunication firms, and even the state-owned electricity company, according to Bloomberg.com. The demand for protective gear increased because they were primarily used in the fight against the Covid-19 virus worldwide.

However, the post-Covid-19 period did not let the company enjoy its newfound fortune. By June 2021, with the introduction of vaccines, and other competitors entering the market with cheaper versions of protective gear, Top Glove Corp's share price had plunged significantly, eroding its market value from US\$ 6 billion at the peak to US \$ 4.5 billion four months later and to US \$1.6 billion in January 2022, according to *freemalaysiatoday.com*.

Companies operate in a very dynamic environment, which affects their operations in various ways. This calls for companies to keep adjusting their strategies, processes, and structures to adapt to the ever-changing environment. There are risks associated with failure to adjust to the volatile business environment, and these include but are not limited to;

Obsolescence in products and services offered

Products and services are constantly introduced to the market because of changes in trends, fashions, tastes, and preferences. When companies fail to adjust, they risk offering services and products that customers no longer like.

Let's take the example of Celtel Uganda, once a leading telecom in Uganda. Even as MTN entered the market, Celtel refused to adjust its services to accommodate other customers. For instance, the company maintained high monthly service charges, which were a significant barrier to accessing its

network. MTN, on the other hand, did not charge monthly fees and was able to attract more customers and overtake Celtel in terms of subscriber base. Consequently, Celtel was later bought by Warid telecom, which was eventually sold to Airtel, which currently ranks second to MTN in terms of the number of subscribers.

Another example is the story of Blockbuster and Netflix. Blockbuster and Netflix are two companies that dealt with renting VCRs. Netflix approached Blockbuster, a market leader in the movie-renting business at that time with the view of merging and coordinating the online business since CDs had been invented, but Blockbuster refused. Netflix went ahead and implemented the idea of online renting where customers would watch movies in their homes without having to look for an outlet/waiting for a delivery. After six years, Netflix became a market leader and Blockbuster ran out of business.



“The main reasons for quitting a particular job have traditionally been low wages, work pressures, or seeking new challenges. However, there is another new factor; employees are quitting because employers are not tech savvy, or they are failing to adapt to the recent changes in technology and trends in employment”.

Low staff morale and employee attrition

Employees quitting is a significant risk to companies, especially if the employee in question is a talented and experienced one. The main reasons for quitting a particular job have traditionally been low wages, work pressures, or seeking new challenges. However, there is another new factor; employees are quitting because employers are not tech savvy, or they are failing to adapt to the recent changes in technology and trends in employment. According to PwC non-executive directors' report, the “big quit”, which was pandemic-induced, has been influenced by remote work and rampart work stress attributed to poor technology, poor pay, etc.

Waning industry influence and reputation risk

Market leaders that fail to change or move with trends soon lose their

influence and face a reputation risk that affects their operations. Let's take the example of Nokia, Microsoft, and BlackBerry. When Apple Inc introduced the first subsidised smartphone, the iPhone, the then CEO of Microsoft, Steve Ballmer, stated, “There's no chance that the iPhone will get any significant market share. No chance”. Nokia's Chief strategist expected the iPhone to control a market niche. The BlackBerry CEO said, “it's kind of one more entrant into an already very busy space with lots of choices for consumers.”

However, Apple Inc proved them wrong, and all three companies lost market leadership and influence in the phone business. However much these companies have tried to regain their influence, they have failed miserably, to the extent that Microsoft bought Nokia, and the latter ended up buying back phone manufacturing that was sold to Microsoft.

Inefficiency in processes and the need for new technology

As the business environment changes, so should the business processes and technologies deployed. Companies must continuously develop strategies to deal with complex customer needs and preferences; otherwise, they risk running out of business. For example, ABC carpet and home, a more than a century-old New York luxury home goods retailer, filed for bankruptcy in September 2022 (according to www.bloomberg.com). The primary reasons cited were the pandemic and the sluggishness in adapting to e-commerce. The company failed to change to the customers' demands and improve its processes, leading to low sales and a fall in revenues.

Technological changes, pandemics, climate change, changes in customer tastes and preferences, generation Alpha, etc.; these factors have significantly changed the business landscape. The environment is very dynamic and characterized by a faster speed of change than ever before. Companies need to develop strategies on how to deal with the changing business environment.

Below are some strategies that a company can adopt to survive and grow in the dynamic business environment:

Use of big data analytics

Have you ever wondered why users of Facebook, YouTube, etc., spend a lot of time on these platforms? These companies use big data to analyze user behavior, information about the users' field of interest, and the news feed the users get will be related to their area of interest, thus keeping them glued on the phone for hours.

Companies have extensive data, which can be analyzed and used to make real-time decisions that improve the customer experience, product/service, logistics, customer segmentation, pricing, customer retention, inventory management, and many other aspects. Your company strategists should help you make use of the data at your disposal to make decisions to keep up with the ever-evolving business and customer needs.

Leverage research and development

Companies usually engage in process improvement exercises, and these become their primary area of focus in delivering services and products to their customers.

However, sometimes perfecting the process or product may not be good enough. Polaroid, which was a market leader in instant photography ruled the market for decades and the name Polaroid became synonymous with instant photography, but when the company filed for bankruptcy, some of the issues identified were refusal to change the product and the desire to perfect their techniques of producing instant photos.

Sometimes a complete change of function, product, or process needs to be done to enable the company to survive the turbulence. This can be possible

if company executives make a deliberate effort to finance research and development.

For example, Samsung, a South Korean electric company, which is one of the world's leading producers of electrical products, started with the noodles business and other goods produced in Taegu, Korea, and exported them to China and its provinces. Over the years, after a series of deliberate changes in a bid to adapt to the ever-changing business environment, the company is now manufacturing phones, TV sets, home appliances, etc.

Fast change is the new normal

We live in the information age, and transformative changes are happening quickly in the business environment, thus, companies should consider change as a new normal. Transformative change can be architected by anyone using minimum resources; it can happen very fast and be less predictable. Therefore, company executives need to accept and be comfortable with change, sensitize employees about the change to minimize resistance, and sell to the stakeholder change ideas, and the impact the change will have on the business.

Constant innovation

In a dynamic business environment, no company or industry is immune to disruptions. These disruptions can happen at any time, given the cheap technology available on the market. Company executives need to recognize that innovations are crucial to surviving in a volatile environment and can come from anywhere in the organization. Top executives need to have open communication channels to allow the free flow of information throughout the management hierarchy.

Management should have a deliberate policy of engaging employees to innovate daily and share knowledge. Target, for example, is a retail giant in the US which has continued to adapt to changing business environment through omnichannel (Curbside, online store, same-day deliveries, etc.), innovative store re-designs, and small format stores. The practice has enabled Target to maintain steady revenues even during the hardest economic conditions.

Agility

Traditional bureaucratic organizational structures, with multiple layers of hierarchy, are slow to change and find it challenging to adapt to change. In a volatile business environment, companies need to redesign their structures so that decisions are made in real-time, as changes occur. For example, in the recent National Social Security Fund (NSSF) organizational re-design, squads were introduced, comprising a team of staff from different departments. These squads will champion innovations that have been suggested to management, thus leading to transformation of ideas into operational processes.

There are different strategies that companies can consider to be able to survive the risks associated with fast-paced changes in the business environment, the list can go on. Adapting to the volatile business environment quickly and efficiently is a core competence of successful businesses, which depends on top management's strategic intent.

Conclusion

As companies adapt to the changing business environment characterized by a lot of uncertainties, risk management is essential. Just like the brakes on the car that enable people to drive faster, so is risk management in an organization. Understanding your risk appetite is the first step in effective risk management, which makes it easy to spot what influences decision-making. Collaborative decision-making helps to temper your natural aversion or attraction to specific risks.

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MANAGING RISK AT A PERSONAL LEVEL

According to ISO31000 Risk Management, risk is the effect of uncertainty on an objective, whether positive or negative. Although, as seen from the definition, risk has got two aspects (positive & negative), the main concern in risk management is the downside of risk. This is because the downside of risk diminishes the chances of attaining personal goals or objectives.

Human beings have got various objectives, which may be financial, political, economic, social or health objectives. When we set objectives, it is our desire that the objectives are realized. However, because of materialization of certain risks, oftentimes, a number of objectives are not realized.

That means a key consideration at the point of developing an objective should be risk; in other words, what can go wrong or what can prevent you from achieving your objective, and how do you minimize the likelihood of not attaining the objective or the effect of uncertainty on the objective?

Personal development rotates around the choices and decisions one makes, which in turn have consequences and rewards. Risk has a direct impact on the results emanating from the choices one makes. When you invest, you make choices about what to do with your financial assets. Risk is the effect of uncertainty on your investments that has the potential to affect your financial welfare negatively or positively. Personal risks directly affect an individual and may involve the loss of earnings and assets or an increase in expenses.

Risk management is the process of identifying, assessing, and controlling risks that can hinder an individual from attaining their objectives. The primary goal of personal risk management is to increase the chances of attaining personal goals, aspirations, or dreams.

It should be noted that everyone has to pay a price for every good thing they would like to have. Every attempt to achieve something runs a risk of failure. It should, however, be remembered that every failure is a stepping stone to a successful life. Value is created by taking risk; like Mark Zuckerberg said, “The biggest risk is not taking any risk. In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking any risks”.

Those who are not willing to take certain risks face living a mediocre and unfulfilled life. This is the risk of settling for what is easy and available. One

should not be afraid of taking risks, as long as one understands the nature and severity of the risk. The golden rule in life is that if the reward is bigger than the risk, then taking the risk is worthwhile. However, to realize the maximum benefit from taking risks, one needs to put in place a mechanism to minimize the likelihood and/or the impact of the risk when it materializes.

The nature and amount of risk an individual takes have much to do with their personality. There are people who are risk-averse, meaning that, naturally, they are too afraid of taking risks, while others take pride in being risk-aggressive or risk-takers. But as the saying goes, “too much of anything is always bad.” The two extremes are not always the best. Excessive risk-taking may result in personal danger, while too much caution leads to loss of opportunity.

Some of the risk drivers at a personal level include but are not limited to:

Choice of a wrong marriage partner

Finding the wrong partner can translate into life-long misery, broken relationships, broken families, and poor parenting. These have a direct impact on your lineage and descendants. It is critical to take time to gather relevant and sufficient information about your potential spouse and analyze the information before choosing a lifetime partner. It is the character, belief and values of the person you intend to marry, that is going to determine whether you have a happy and prosperous family or not, not the money or the good looks.

Criticisms from saboteurs

Unfortunately, your success is not everyone’s happiness. Your success is seen by some, as a risk to their aspirations; so if you want to attain your dreams, be ready to face criticism, ridicule, hatred, sabotage, blackmail, and in the worst case, attempts at your life!

However, you should be comforted by the fact that, for steel to be turned into a useful implement, it has to go through a furnace. Pursue your dreams, and deal with each obstacle as they come.



Cost of being honest

Honesty is a virtue that is desired by all but practised by a few because of the vulnerabilities it creates. For example, someone borrows your car, and while driving, the Cops stop him and give him an express penalty ticket. Honesty requires that he informs you about the incident and he pays the ticket. However, he may choose to keep quiet to avoid making the payment because of the fear that you may not be willing to lend him the car next time. Another example is that, if one is called upon to testify against one’s close friend whom he/she witnessed committing a crime, one may be reluctant or may testify in the defense of the friend, for fear of losing the friendship.

On the other hand, it is important to note that dishonesty is just a delay of the truth. History has shown that life has never been kind to the dishonest. The challenge with dishonesty is that after a certain point in time, the dishonest start believing their own lies!



“A ship in harbour is safe, but that is not what ships are built for”, a comfort zone keeps you stagnant.

Keeping in the comfort zone

A comfort zone is where a person becomes relaxed and feels comfortable with doing whatever they are doing. In this situation, someone will put up tremendous resistance to change. They will find lots of reasons for not changing. But like in the words of John A Shedd(1928), “A ship in harbour is safe, but that is not what ships are built for”, a comfort zone keeps you stagnant. Additionally, progress cannot happen without change; like Einstein

once said, “insanity is doing the same thing over and over and expecting a different result”! Staying in a comfort zone for too long is the reason why some people live their lives without ever exploiting their fullest potential.

Other risks

Other risks that may affect one at a personal/individual level include, but are not limited to, unemployment, resulting from retrenchment, personal accidents that could result in temporary or permanent disability, natural disasters, obsolescence of one’s learned skills, and non-communicable diseases, among others.

Conclusion

Note that there are various risks that affect anyone at a personal level. As a matter of fact, risk is inherent in everything we do; and what makes risk extremely important is the fact that it affects every objective we set ourselves to achieve, either positively or negatively. The negative effects are the main concern in risk management. Effective risk management requires an understanding of what you want to achieve (objectives), what can go wrong, the likelihood and impact of the risk materializing, as well as having a mechanism to treat the risk appropriately.



CREDIT WORTHINESS: KEY ISSUES LENDERS AND BORROWERS SHOULD CONSIDER.



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Every now and then you read the local press, you come across an advertisement pertaining to properties being auctioned for the borrower's failure to settle credit obligations.

The question is, what causes these unfortunate incidents? Is it individuals who are being aggressive in taking credit or the lending institutions that are not doing their best to assess the borrowers' creditworthiness? This situation is two-sided; either borrowers are taking credit without proper assessment of their capacity to repay the loans or financial institutions' appetite for increasing their loan portfolio makes them extend loans without performing the necessary due diligence.

Firstly, let us look at an individual seeking to obtain credit. Individuals taking loans irrationally have contributed to serious problems in the economy. They are partly responsible for the increase in the cost of doing business in terms of high interest charged on loans to compensate lenders for accepting the high risk of default, which has a negative bearing on the country's GDP.

High interest rates on loans are a barrier to investment and a major cause of business failure. Individuals should perform a self-evaluation of their financial capacity to manage loan repayment before seeking credit.

The key factors to consider before signing a loan contract include but are not limited to:

i) Purpose of the loan

Getting a loan for the right purpose should always be the way to go. Before one applies for a loan from any lender, one needs to be clear about the purpose for which the loan is sought. There are many situations where people borrow money for one purpose but along the way they divert the money to fund different activities. Unfortunately, those other activities may not have been properly evaluated to determine their financial viability. The implication of this is that the borrower will not have sufficient cash flows to meet the loan obligations as they fall due.

Secondly, borrowing money for consumptive expenditures, which provide no monetary returns, such as weddings, funerals, etc., is a recipe for disaster.

Both the borrower and the lender must have clarity of the purpose of the loan. For the former, it is important to have a clear purpose so as to tailor the borrowing to the purpose and avoid a problem of mismatch between the cash flows and loan obligations. For the latter (lender) it is important to know the purpose of the loan in order to price the risk appropriately.

ii) Capacity

According to the Financial dictionary by Bankinter.com, borrowing capacity is the maximum amount that a company or an individual can borrow without jeopardizing their financial soundness. They reiterate that standard borrowing capacity should be between 30% and 40% of one's income, which means that debt should never exceed 40% of the individual's remuneration.

Such a consideration ensures that the borrower will have enough income to pay the loan instalments and remain with sufficient cashflows to meet their other personal expenses. Assessing your individual capacity also helps you to further understand first, whether the available sources of money are sufficient to meet loan obligations, and second, to determine the reliability of those sources to be in a position to pay back the acquired loan.

I am skeptical whether borrowers make that kind of assessment when deciding to borrow. No wonder, many end up worse than they were before borrowing, that is, in a financial jeopardy.

iii) Economic conditions

For a country like Uganda, which largely depends on rain-fed agriculture, during periods of prolonged draught, individuals typically struggle to survive due to reduced disposable incomes from farming activities. In essence, borrowers in need of credit ought to be cognizant of the difficulties in meeting future obligations to avoid biting off what they cannot chew.

iv) Recourse Vs non-recourse loans

Another key consideration for the borrower is whether the loan is a recourse or non-recourse loan. Although for both recourse and non-recourse loans, the lender has the right to seize the collateralized asset(s) upon failure by the borrower to meet his/her obligation, in case of a recourse loan, the lender may go after a borrower's other assets if the value of the collateral is not sufficient to redeem the loan balance. On the other hand, with non-recourse loans, the borrower's obligation is executed in full when the lender takes over the collateral.

Therefore, it is extremely important for any potential borrower to know the type of loan and its implications before signing the contract. This is where the highest risk of loss of assets resides. Unfortunately, after securing approval of the much-needed cash, most borrowers become too excited to reflect on these crucial ingredients of the contract. When the borrower begins to experience financial difficulties and start defaulting, he/she is comforted by the illusion that the collateral would be sufficient to offset the loan balance. To their surprise, if the type of loan was a recourse one, even other assets beyond the collateral are taken over.



V) Character of the lender

The character of the lender is also a key consideration. Obtaining loans from loan sharks can be extremely risky. Although they appear very attractive because they have a relaxed credit policy, and are highly flexible and quick in disbursement, their terms can be dangerous. For instance, their interest rates are usually very high, disguised as 10% per month, which is 120% per

annum! Which business can give such a return?

Secondly, the collateral they require is sometimes 3 to 4 times the value of the loan, and their default period is just a matter of a few days, after which, they take over the collateral.

Before a loan is obtained, ideally, someone's sixth sense should be at play. Look at how the loan "agreement" is structured. In most cases, it is made to appear like a sales agreement as opposed to a loan agreement. As if that is not enough, the interest rates charged are far beyond the normal market rates, as explained above. Given that the loan charges are exorbitant and not feasible, affordability becomes a concern. To make it worse, the way agreements are drafted makes it easy for the money lender to grab the borrowers' assets. One should not celebrate getting a loan from such sources without reflecting on what it involves.

“Although creditworthiness assessment does not provide a 100% guarantee that the borrower will never default, it minimizes the chances of disbursing a loan to individuals or businesses that have high chances of default; as the adage goes, “a loan goes bad at origination”.

From the perspective of the lender, the key concern is whether the expected cash flows from the borrower will come in the right amount and at the right time. It is, therefore, important that the ability of the borrower to pay (creditworthiness) is comprehensively assessed before a loan is disbursed. Although creditworthiness assessment does not provide a 100% guarantee that the borrower will never default, it minimizes the chances of disbursing a loan to individuals or businesses that have high chances of default; as the adage goes, “a loan goes bad at origination”.

For lenders intending to extend credit, especially to businesses, special attention should be given to the company's financial statements, including the statement of comprehensive income (income statement), statement of financial position (balance sheet), cash flow statement, and the statement of changes in equity, as well as projections for income and expenditure.

Analytical procedures, which involve the use of various ratios should be carried out to study the strength of the cash flows of the company. Such ratios include interest coverage ratio, debt-to-asset ratio, working capital, loan-to-value ratio, debt-to-income ratio, Debt service coverage ratio, and quick ratio, among others. These help to shed light on the soundness of the company's or individual business, and so the ability to meet loan obligations.

Conventionally, there are a number of factors considered before a loan is extended to the borrower. These are summarized in the five Cs as discussed below:

i) Capital

Capital or owner's equity is a key determinant of the borrower's ability to pay the loan, and therefore, it is always of great interest to the lender. By analyzing the financial statements of the prospective borrower, the lender is able to assess the level of capital to be able to derive comfort (or lack of it) that the borrower is sufficiently capitalized.

For instance, the debt-to-equity ratio is a good indicator of the prospective borrower's capital adequacy or lack of it. Additionally, a high level of return on equity is a key driver of retained earnings, subject to the dividend policy, which (retained earnings) forms part of equity.

Other factors constant, a strong capital base implies greater ability to meet financial obligations as they fall due.

ii) Character of the borrower

Character, which is the mental and moral qualities, distinctive to an individual, needs to be analyzed to minimize the chances of default. This includes, for example, analyzing the credit history of the prospective borrower. If the prospective borrower has had a history of not honouring credit obligations, chances are high that he/she will default on the repayment obligations. Secondly, if the prospective borrower is a drug addict, an alcoholic, a social delinquent or a habitual law breaker, etc., it is highly likely that he/she will not honour repayment obligations.

iii) General operating conditions

In examining a borrower's creditworthiness, lenders look at the general economic, political, social, technological, legal and regulatory, as well as environmental conditions relating to the loan applicant, such as inflation, taxation, etc. These factors affect business performance and consequently the ability of the borrower to meet financial obligations, including loan repayments. A clear example is the recent Covid-19 pandemic, during which many financial institutions were reluctant to lend for fear that the prospective borrowers might not repay the loans due to financial constraints. According to a paper on "Efficacy of COVID-19 Macroeconomic Policy Responses" in Uganda by Ibrahim Mike Okumu et al, the overall credit growth in the financial institutions' sector declined from 9.5% in the pre-pandemic period to 6.5% during the pandemic (2019-2020).

Secondly, during periods of high inflation, banks are less aggressive in granting credit, which is exacerbated by an increase in the CBR (Central Bank Rate) by the Central bank in an effort to curb inflation, signalling commercial banks to increase lending rates. Banks, therefore, become very selective in advancing credit to avoid high defaults due to high-interest rates.

iv) Collateral

A collateral acts as a security against the risk of default by the borrower, such that when the borrower fails to repay the loan, the lender takes over the collateral to recover the outstanding loan balance. Therefore, other factors constant, a prospective borrower with collateral stands a higher chance of obtaining a loan than one without.

It is important to note that the value of the collateral must be sufficient to cover the loan obligation. Financial institutions require that the value of the collateral is higher than the embedded loan to cater for the costs that the lender may incur in disposing of the collateral, among other costs.

Other key considerations about the collateral are marketability and diminution

in the value of the asset. If the proposed collateral has low marketability, or if the asset is susceptible to a diminution in value, e.g., chattels, the lender will be less inclined to accept it. In Uganda, the commonest collaterals are land and buildings.

V) Capacity

Capacity in the context of credit refers to the borrower's ability to settle debt obligations in time and in full amount. According to investopedia.com, lenders

normally measure borrowers' ability to repay loans by comparing income against recurring debts and assessing the borrowers' debt-to-income (DTI) ratio. This is a summation of total monthly debt payments and dividing that by the borrowers' gross monthly income.

Although different lenders have different risk appetites, many prefer an applicant's DTI to be relatively low, not exceeding 35%, before approving an application for financing. It is worth noting that sometimes lenders are prohibited by regulators from issuing loans to consumers with higher DTIs as well. This, therefore, implies that having a lower DTI increases the chances of qualifying for a loan.

Assessment of borrowers' creditworthiness, however, faces considerable challenges. Firstly, high competition in the financial institutions' sector to build loan portfolios. Secondly, the existence of numerous informal lending schemes that make it possible for multiple borrowing tendencies that do not share information on such platforms like credit reference bureau among formal lending institutions. The existence of such informal sources of credit makes it possible for borrowers to become over-indebted, which makes them become overwhelmed by debt repayments, and eventually fail to honour their obligations.

Conclusion

Assessment of creditworthiness should be taken seriously by borrowers and lenders. This helps the borrower to avoid taking credit for which he/she has no capacity to pay. On the other hand, it helps the lender to minimize cases of default.



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NAVIGATING PEOPLE RISK AT WORKPLACE

People risk is the negative impact on the performance of an organization, emanating from employees deviating from expected behavior, which negatively impacts the organization's performance and reputation. Unexpected behavior results from inability of employees to follow organization's procedures, policies, and culture.

People have been and will always be a major factor of production, either directly or indirectly. Directly in manual processing, starting from the stone age period, and indirectly in the fourth industrial revolution, where automation, artificial intelligence and machine learning are driving the change.

New strategies of robotic working have been introduced but still require people to program with; what is changing is the level of expertise required.

Most of the major business troubles, including collapses, result from people risk. The BP oil spill scandal, for example, reflects the negative impact of employee negligence on the company's reputation and resources. In 2014, a US Court judge ruled that BP was primarily responsible for the oil spill because of its gross negligence and reckless conduct, which resulted into an oil spill for 87 days, death of eleven employees and injury of seventeen. The Oil Spill was caused by lack of cement between production and protection casing, which would have been prevented if the employees had paid more attention to the cement casing which was needed.

Likewise, unethical practices of Boeing employees, who knew about the malfunctioning of the Maneuvering Characteristics Augmentation System (MCAS), and did nothing about it. This led to a series of accidents involving Boeing 737 Max; the major ones being Lion Air and Ethiopia Air crashes, which resulted into the death of 346 people in total. The company was fined \$2.5b criminal penalty by the USA Justice Department to settle criminal charge related to the 737 Max scandal. This could have been prevented if the Quality Assurance team had executed their role with due diligence.

People risk vary from organization to organization, and is attributable to a number of factors, which include but not limited to:

Mismatch between organizational culture, mission and strategy

It is important that the culture of an organization is built around what the organization intends to achieve and how to achieve it. A military environment requires a power culture, where orders are not questioned, while the private sector requires an open environment and freedom to ask questions, where the



focus is on the goal. This requires a collaborative culture.

In the military, going to a battle front is a matter of life and death; if you opened a debate on whether or not to go, or who should go to the battle front, you could probably not get anyone choosing to go. Therefore, an order must be obeyed.

However, military orders in a private sector environment enlist resentment from employees, which can result in malicious acts such as sabotage by employees. At a personal level, work culture is also an important consideration; it is better to choose an employer who provides a work culture that suits your persona. Hence, before signing the contract, conduct research about the employer, because work culture can make or break you.

Moral decay

One of the symptoms of moral decay is the “get-rich-quick” mentality of many of the young people today. For such people, the sole objective of seeking employment is to accumulate wealth at all costs in the shortest time possible! Honesty has become the exception, and those who try to live an honest life are considered naïve. The corrupt, embezzlers, etc., have become the celebrities and role models for many. Such role models are always over hyped and yet oftentimes their incomes cannot be traced to legitimate sources. For example, Erastus Gikandi, a tycoon in Nakuru—Kenya was killed during a foiled bank robbery, yet he was known as a rich man and a role model for a number of youths. A society, where unethical behavior is rarely rebuked, can influence employees to engage in unethical behavior.

Another example is the LIBOR scandal in 2012, which involved bankers in several major financial institutions, who colluded with each other to manipulate the London Interbank Offered Rate (LIBOR). The manipulation of the Libor caused mispricing in mortgages, corporate bonds and derivative trades globally, whose pricing was based on it.

Although the scandal became known in 2012, the collusion in question had

been ongoing as early as 2003.

Advancement in technology and legal practice

The advancement in technology, which has facilitated easy access to information on websites, social media and laws, plus growth in the legal practice, have enabled employees to know and defend their rights when violated. This has resulted into an increase in employee litigations. Gone are the days, where termination of an employee's contract was very easy; these days procedures must be followed.

Discrimination

Discrimination based on race, religion and gender is a major factor. The current workplace environment must deliberately cater for diversity and inclusion. For instance, violation of diversity and inclusivity caused reputation damage to Gucci in 2019, when it was criticized for using racially charged and religiously insensitive designs.

Weaknesses in corporate governance

Lax in corporate governance introduces weaknesses in the control environment, which result in materialization of risks; as the saying goes, “the fish starts rotting from the head”. If the governance policies and procedures are violated without any reprimand, then the risk of encouraging bad behavior is high, as evidenced in Enron's collapse (2001), which occurred due to a combination of unethical accounting practices and incorporation of fake entities encouraged by management, board, auditors, and business watchdogs.

However, the mentioned people risk factors can be navigated by:

Matching culture with organizational mission and strategy

Define an appropriate work culture for the organization, which supports performance. In the world today, survival and growth are driven by innovations, and to foster this, the work culture should be consultative but task-oriented, where the focus is on achieving results in an ethical manner.

”

Mitigating people risk is key to the organization's going concern because it protects the organization from resource wastage in terms of litigation and supports the attraction and retention of talent, which is key to achieving excellent growth.

Values are important but also of utmost importance is a clear ethical purpose. The ethical purpose promotes integrity among employees and build trust from key stakeholders, such as investors. The organization should also incorporate values in day-to-day operations to influence society since employees come from the society.

Transparency

Transparency is key in recruitment, performance appraisals and termination of employment contracts, to ensure that the organization reduces litigation risk, otherwise multiple litigations will constrain the company's resources.

Diversity and inclusivity

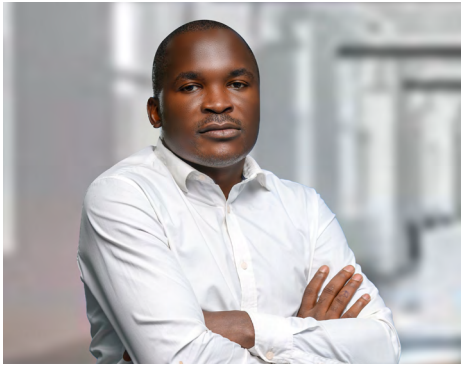
Human resource policies must cater for diversity of opinions, race, religion, and gender. In addition, diversity should be part of the day-to-day culture of the organization and not just in written policies. Application of diversity and inclusive policies will engage and make employees comfortable in their working spaces.

Best practice in corporate governance

Adopting corporate governance best practice, where the Audit and Risk functions of the organization are empowered to conduct process, systems and product reviews, and the Board exercises sufficient oversight over the company, and external auditors/ watch dogs, who are independent, provide assurance on the strength of internal controls, goes a long way in mitigating people risk

Conclusion

Mitigating people risk is key to the organization's going concern because it protects the organization from resource wastage in terms of litigation and supports the attraction and retention of critical talent, which is key to achieving excellent growth.



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CIRCUMNAVIGATING RISKS IN COMMERCIAL REAL ESTATE

Real estate refers to real, or physical property, and can include land, buildings, air rights above the land, and underground rights below the land. As a business term, real estate also refers to producing, buying, and selling property. The focus of this article is on commercial real estate that is privately owned.

Commercial real estate is simply defined as a property which can generate potential profit through rental income and or capital gain.

In Uganda, real estate is one of the most attractive investment opportunities because of the high demand for housing, especially in Kampala metropolitan area, followed by other cities such as Mbale, Mbarara, Jinja, Gulu, etc.

According to the Uganda Bureau of Statistics, the housing deficit in Kampala is about 550,000. This is mainly driven by the growing urban population due to increasing rural-urban migration. According to the Uganda Bureau of Statistics (UBOS) half-year report of 2021, the urban population is expected to hit 21 million by 2040.

Real estate investment is a relatively secure investment, whose value, in most cases increases as time goes by. According to Andrew Carnegie, a billionaire industrialist, “Ninety percent of all millionaires become so through investing in real estate”.

It should, however, be noted that like any other investment, investing in real estate is associated with certain risks as explained below, which investors need to circumnavigate in order to reap the expected returns.

Level of debt

Due to the large sums of money required to start a commercial real estate, many participants in the industry resort to debt as their key source of capital. Such debt is collateralized by the property acquired or developed, which gives the owner the ability to achieve risk-adjusted returns.

The investor should, however, understand the risks involved in acquiring the debt and appraise his/her financial capacity to meet the expected periodical

payments. It is important that the investor matches his/her anticipated cash flows with the periodic debt installment payments.

This will help mitigate the risk of having one's funds get stuck in a structure, yet he/she is expected to be making periodical payments. According to the Independent publication of July 26, 2016, some property companies, including Hosanna estates, and Ms. Rabbai, went under due to high levels of debt.

Non-occupancy risk

The key expectation for most commercial real estate investors is that they will have a full and consistent occupancy, which will enable them to cover their operational expenses, including any debt obligation, as well as earn a profit.

Real estate investment is a relatively secure investment, whose value, in most cases increases as time goes by. According to Andrew Carnegie, a billionaire industrialist, “Ninety percent of all millionaires become so through investing in real estate”.

potential tenant. However, this must be done with care, because this kind of scrutiny may scare away potential tenants.

The other mitigant would be to require tenants to pay a security deposit to help the landlord renovate the property in case the tenant leaves it in bad

complaints from tenants, so as to improve the level of occupancy.

Credit or default risk

Credit risk is the likelihood of loss arising from failure by the tenants to be able to make timely payments as they fall due, in accordance with the tenancy agreement, which affects the cash projections of the investor.

This risk can be minimized by conducting a credit risk assessment for all tenants before awarding them space. The assessment should include among other things, reference checks, a review of the KYC of the tenants and financial statements or income. This can help the landlord to know the financial health of the

compliance system.

Market risk

Market risk is the possibility of experiencing losses due to changes in the market variables, such as interest rates, unemployment, and commodity prices. An increase in the interest rates on mortgages may result in an increase in the cost of the real estate property since most of them are financed by loans.

Furthermore, an increase in the prices of construction materials leads to an escalation of construction costs, thus, affecting the prices of real estate products. High prices affect the demand for real estate products negatively, leading to a decline in expected cash flows on real estate products.

This risk can be managed by undertaking prudent cost management tactics, such as reviewing the structural design of the properties, identifying cheaper alternative suppliers of raw materials, reviewing the operational costs, with a view to scaling them down, etc.



The non-occupancy risk, therefore, is about the possibility that such an expectation may not be realized, which can cause frustration for some investors. One of the major causes of the risk of occupancy is poor management of the rental property and/or having the property situated in an unattractive location. It is, therefore, important for investors to conduct an analysis of the location of the property at the beginning of the investment, in line with the expectations and preferences of the potential tenants. Real estate investors should also develop a tenant retention plan and ensure that this is well managed. The retention plan should include strategies on how to ensure that the property is kept in good condition, through regular maintenance and repair. It should also include ways on how to ensure the timely resolution of

condition. Punitive measures should also be input in the tenancy agreements to address cases of default.

Regulation risk

Reputation risk is driven by many factors, including but not limited to changes in laws and regulations, which have the potential to impact the investors in real estate in a significant way. For instance, the changes in the income tax laws, especially concerning rental tax, can result into an increase in the income tax liability of the investor. Such changes should be tracked and complied with to prevent fines and penalties. For example, on the 1st of July 2022, Uganda Revenue Authority announced a new fine of UGX 110 million for noncompliance to the rental tax after introducing the operational rental tax

Conclusion

It should be noted that risk management in commercial real estate should begin at the planning stage of the project, where the potential risks are identified, and assessed, and measures put in place to effectively manage the risks.

Investors in real estate, therefore, need to consider the above-mentioned risks, and possibly many others, that are likely to affect the anticipated revenue, before injecting their funds in the real estate projects, and to constantly implement the relevant controls to minimize the impact.





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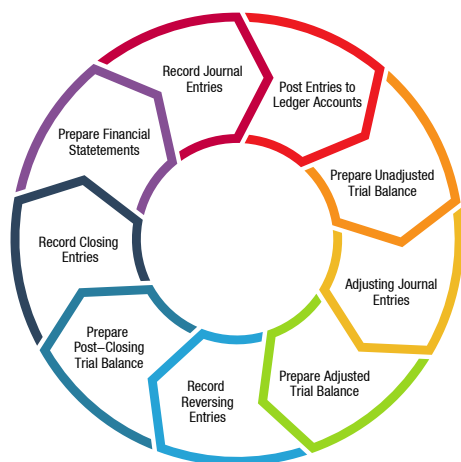
BOOKKEEPING: A CORNERSTONE FOR FINANCIAL ACCOUNTABILITY

According to Wikipedia, the origin of book-keeping is lost in obscurity, but recent research indicates that methods of keeping accounts have existed from the remotest times of human life in cities. Babylonian records written with styli on small slabs of clay have been found dating to 2600 BCE, while Mesopotamian bookkeepers kept records on clay tablets that may date back as far as 7,000 years. Use of the modern double entry bookkeeping system was described by Luca Pacioli in 1494.

The gist of this article is to highlight the central role bookkeeping plays in ensuring proper financial accountability. Financial resources are the driving engine of any organization and are highly susceptible to abuse by those who have access and control over them. Accountability forces those in charge of the financial resources to act with integrity and prudence when dealing with the financial resources since they know that they will be required to account for them (resources).

It is important to note that without proper bookkeeping, it is almost impossible to ensure proper accountability of financial resources, which creates room for abuse of those resources. Bookkeeping is a repetitive process that ensures that all transactions executed in a given period of time are properly recorded, systematically organized, checked for accuracy, aggregated, and presented to different stakeholders.

The bookkeeping or accounting cycle involves the following stages:



Source: <https://www.myaccountingcourse.com/accounting-cycle>



The bookkeeping cycle starts with the day-to-day transactions arising from the trading activities of the business for the period and undertakes a series of steps as described below:

1. Identify and analyze business transactions, and record them as journal entries.
2. Post journal entries to applicable T-accounts or ledger accounts.
3. Prepare an unadjusted trial balance from the general ledger.
4. Analyze the trial balance and make end-of-period adjusting entries.
5. Post-adjusting journal entries and prepare an adjusted trial balance.
6. Prepare financial statements using the adjusted trial balance.
7. Close all temporary income statement accounts with closing entries.
8. Prepare a post-closing trial balance for the next accounting period.
9. Prepare reversing entries to cancel temporary adjusting entries if applicable.

Why bookkeeping is so crucial in financial management

To get everything well catalogued for your business, you cannot underestimate the importance of bookkeeping. To enhance your appreciation of the role of bookkeeping, I have come up with a number of reasons why bookkeeping is important for business success, see below:

1. Budgeting, budget monitoring and evaluation

The importance of bookkeeping arises when it comes to budgeting, budget monitoring and evaluation. A budget creates a financial roadmap for your business. With a budget, you can plan for future expenses and the anticipated resources that would cover those expenses. When income and expenses are correctly organized, it makes it easier to review financial resources and costs.

Oftentimes when preparing a budget, you require information relating to current/past performance. That information is made available through the bookkeeping processes, absence of which could make a budgeting process a nightmare.

During budget monitoring and evaluation, actual performance information

such as income generated, expenses incurred or total assets accumulated, is required to be compared with the budget estimates. There is no doubt that without proper bookkeeping, that information may not be available, or it's credibility may be in doubt.

When the Uganda Revenue Authority (URA) closes your business to carry out it's audits, you will regret why you did not make sure your books are in order. Improper bookkeeping prolongs the auditing process and makes your business more susceptible to fines and penalties.

2. Compliance with tax obligations

According to the Income tax Act CAP 340, laws of Uganda, all businesses, unless specifically exempted by the Act, are required to pay correct amount of tax and in the correct time. The degree of accuracy of the tax payable is a function of the degree of accuracy of the business's accounting records. Remember that failure to pay the correct amount of tax results in severe penalties, especially in cases of under declaration/payment of tax.

Therefore, proper bookkeeping will save your business from the unnecessary and avoidable tax penalties. In most cases, your business has to file a tax return every year. With a proper organization of records of your earnings, you won't have to worry about scrambling for receipts and invoices. It is because all your files are appropriately documented through bookkeeping.

When the Uganda Revenue Authority (URA) closes your business to carry out it's audits, you will regret why you did not make sure your books are in order. Improper bookkeeping prolongs the auditing process and makes your business more susceptible to fines and penalties. When faced with an audit, it's best to make their job as easy as possible by providing what they request in due time; and this is made possible by proper bookkeeping. Otherwise, you give them time to find more issues with your business.

3. Financial reporting

The primary and most important role of bookkeeping is to ensure accurate financial reporting to different stakeholders. Financial reporting informs the

stakeholders of the financial position and performance of the entity, upon which many decisions can be made, such as dividend amount, investment, cost management, etc.

With proper books of account, it becomes easy to prepare accurate financial reports, which provide reliable and credible information to different stakeholders.

4. Strategic planning

Strategic planning requires a myriad of information, including financial information. Some of this financial information relates to the current or previous performance of your organization or other organizations if you wish to benchmark. The bookkeeping or accounting system makes this information readily available and helps to track the results of your plan and to adjust your goals accordingly, thus facilitating the planning process.

5. Financial performance measurement

Bookkeeping provides the necessary information for measuring financial performance and position. Shareholders and other stakeholders who have an interest in the business always want to know, for instance, whether the business is making a profit/loss, and whether it is growing or not. The organization uses information generated from the bookkeeping/accounting system to measure its performance. Proper bookkeeping enables tracking of the movement of business assets such as inventory, cash, and bank balances and therefore, reducing theft and fraud.

Additionally, credit institutions may need to analyze the financial performance of a prospective borrower. This will be made possible by reviewing the financial statements of the prospective borrower, which are prepared based on the bookkeeping/accounting records.

By definition, bookkeeping is the organization of financial information. Keeping your financial records organized makes it easier to locate the information you need at a particular time, so as to provide appropriate information to key stakeholders. Without a proper bookkeeping/ accounting system, you would not be able to measure accurately the financial performance of your organization.

Therefore, good bookkeeping means good analysis, and good analysis means good decision-making and business growth.



6. Cash flow management

You are probably asking yourself; how can bookkeeping contribute to improving cash flow? Well, it can. For instance, bookkeeping provides information regarding which invoices have been paid and which ones are outstanding, both to customers and suppliers. This motivates you to take steps to collect payments against outstanding invoices to customers and pay outstanding invoices from suppliers.

Additionally, analysis of trade receivables can help you identify debtors who are not good at settling their obligations, and therefore, decide to limit future credits to such customers.

Furthermore, proper bookkeeping also ensures that you collect the correct amount of revenue and pay the correct amount to suppliers.

Note that all these steps and many others, which help improve or enhance cash flow management are supported by proper bookkeeping/accounting records.

Just to emphasize the significance of bookkeeping, I will now look at the dangers or the consequences of not undertaking proper bookkeeping.

i) Operating in “darkness”

As your business grows, you will inevitably have more fires to put out and issues to deal with. One of them could be the working capital challenge arising from not keeping proper books of accounts. You cannot know your business's numbers, nor have a clear understanding of your business's financial health, without a sound bookkeeping and accounting system.

For instance, if you don't keep proper books of accounts, you will not know your business's financial position and performance. For example, you may assume you have adequate cash and invest in more stock and yet payments to various suppliers are due the next day. Failure to pay suppliers on time may result in you losing credit lines from suppliers, which constrains your working capital.

ii) Cash flow challenges

Without sound bookkeeping practices, the business will undoubtedly run into cash flow challenges. When business transactions, including expenses, payables, revenues, etc., are not accurately tracked, one cannot get a clear picture of the company's cash flow and this can lead to serious cash flow problems.

iii) Potential increase in tax burden

If the business records aren't consistently updated on a regular basis, you risk missing your filing deadlines and making mistakes on your tax computations, resulting in increased tax penalties, and triggering the tax authorities to make random estimates for tax liabilities. This could lead you to payment of tax amounts higher than the actual liability.

iv) Inability to protect the business from theft and pilferage

Without properly designed bookkeeping and accounting processes and policies, the company is at risk of suffering losses due to internal fraud. Proper accounting systems help to create proper checks and balances, which in turn help the organization to mitigate the risk of theft and pilferage of resources.

Note, although I have dwelt so much on the importance of bookkeeping, I am cognizant of the challenges of implementing a proper bookkeeping/ account system; the high cost of hiring a professional accountant and implementation of an accounting system, being the major ones.

However, the benefits of implementing proper bookkeeping far outweigh the costs of doing so.

Conclusion

The importance of keeping complete and accurate accounting records of all the business's financial transactions cannot be overemphasized. For well-established businesses, this is a given, but for start-ups, it may present a significant challenge, especially the cost. But it is important to note that anyone with good accounting knowledge should be able to do basic bookkeeping, especially for small enterprises.

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YOUR DIET CAN SAVE YOU FROM HIGH BLOOD PRESSURE

The leading cause of death globally, across all income levels, is heart disease. And one of the most common conditions linked to heart disease and strokes is high blood pressure.

High blood pressure, in my opinion, is more of a sign of cardiovascular dysfunction rather than a disease. High blood pressure is most times a compensatory response to increased resistance to blood flow. If the flow of blood is restricted by anything, the result is that the pressure will go up.

So, the best way to manage high blood pressure is to remove the resistance or the cause of the resistance or the cause of the high blood pressure. This is good news because it means that high blood pressure can be reversed naturally using lifestyle changes that remove the resistance to blood flow or make the blood vessels more relaxed.

The food we eat has a big impact on blood pressure; therefore, consuming foods that are good for the heart and can lower blood pressure, is what you should consider first if you have any rise in your blood pressure.

So, I would like to share 12 foods that have been proven to lower blood pressure and keep it under control.



1. Spinach and dark green leafy vegetables

Spinach tops the list because it is a high nutrient low-calorie food that is high in a wide range of nutrients. Most green leafy vegetables like spinach are high in nitrates and potassium which help lower blood pressure.



2. Tomatoes

Tomatoes that contain the red anti-inflammatory pigment lycopene, have been shown to keep blood pressure under control. Their high potassium content is also useful.



3. Avocado

High in potassium and healthy monounsaturated fats, avocado is one of the best foods for lowering blood pressure. Unlike what many people believe, the fat in avocado is not only good for health, it improves cholesterol levels.



4. Chia and pumpkin seeds

These are omega-3-rich foods. Omega-3 fatty acids help to reduce cholesterol, and inflammation and also help with blood pressure control.



5. Celery

Most people know celery is good for cleansing the body, but it is also helpful in keeping blood pressure at a normal level.



6. Garlic and cinnamon

Garlic is also high in nitric oxide, which, like beetroot, can help open your blood vessels and lower blood pressure. The spice cinnamon has been linked mostly to blood sugar control but is also helpful in reducing blood pressure. Use this spice often in tea and in your food.



7. Bananas

Potassium is one of the most important minerals for blood pressure control.

Foods high in potassium, specifically bananas, are energy-boosting and help with blood pressure control.



8. Beans and lentils

These high-fibre foods are also rich in magnesium which is good for blood pressure regulation.



9. Beetroot

Beets are high in nitric oxide. Nitric oxide helps promote vasodilation or the widening of arteries to reduce blood pressure.

One study reported that drinking red beet juice led to lower blood pressure in people with hypertension, who drank 250 millilitres, about 1 cup of the juice, every day for 4 weeks.



10. Sweet Potatoes

The red/purple sweet potatoes are high in potassium that is helpful for blood pressure control.



11. Watermelon

Watermelon contains an amino acid called citrulline, which has been shown to help relax blood vessels and improve the flow of blood.



12. Olive oil

Olive oil has been proven to be useful for health for many centuries. It is part of the popular Mediterranean diet. Research suggests that it can help with lowering blood pressure, probably due to the healthy anti-inflammatory oils it contains.



Bonus: Dark chocolate

Yes, dark chocolate. Cocoa, which is a key ingredient of dark chocolate, is rich in flavanols (a type of polyphenol) that is linked to a marked reduction in blood pressure. Studies have shown that eating dark chocolate may be as effective as some anti-hypertensive drugs.

That said, dark chocolate shouldn't be considered as medication for high blood pressure; only consider the type that is at least 70 percent cocoa, and no more than 30 to 40 grams each day.

There are other foods like berries and pomegranates that are good for blood pressure control, but may not always be easily available in the region.

Go ahead and consume the above 13 foods in abundance if you want to keep your blood pressure level under control or if you want to manage your high blood pressure naturally.

Remember that getting enough rest, keeping hydrated, reducing stress and exercising regularly, will be very important if you want a holistic approach to blood pressure control.



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East Africa is known to have one of the youngest populations in the world, with the majority of the countries in the region, that is, Uganda, Somalia, DRC, Tanzania and Burundi, having more than 50% of their populations below the age of 18 years. This highlights the fact that the future productivity potential of these countries is likely to spike given the potential increase in the size of the regional market and availability of labour.

However, to achieve this, there is a need for sustainable businesses that can weather the storm and stand the test of time, so as to provide the much-needed opportunities to the young generations.

My passion has been in business, and this is what influenced my decision to leave a formal job with Uganda Telecom Limited in 2012, after serving the company for seven years. In the last ten years, I have managed to develop Marine Heights Ltd, a company that deals in fish farming, from just two fishponds to a medium scale Fish Enterprise, with a focus on fish breeding, hatchery management, setting up fish farms and designing solar powered water systems for fish farms. My next focus is to develop a medium-scale fish feed production factory.

Through my adventures in business, I have learned practical lessons, especially regarding why start-ups fail and the key success factors that entrepreneurs need to consider and harness in order to increase their chances of success.

In this article, therefore, I would like to share my thoughts regarding establishing sustainable businesses so that current and prospective entrepreneurs can understand how to navigate the complex business environment and begin enterprises which will create the needed value

START-UPS IN EAST AFRICA: WHY MOST FAIL, AND THE KEY SUCCESS FACTORS.

that the economy yarns for. Failure to harness or take advantage of these factors results in business failure.

In my opinion, based on my experience, the following are key considerations or success factors for establishing enterprises that are likely to stand the test of time:

i) Enterprise selection

Deciding which enterprise you are going to establish is a critical decision, which determines whether you succeed or not, other factors constant. This of course is influenced by many factors, including the market for the products, the level of competition, location, legal requirements, tax implications, and the technology required, inter alia.

Before you decide which enterprise to set up, you need to analyse these and many other factors

It is better to start small and grow over time; this avoids major losses and gives you time to learn the business dynamics and be able to undertake continuous improvement.

and determine whether you have the capacity to address the negative consequences emanating from such factors. Your capacity could be assessed in terms of your personal knowledge, experience, social capital, and your passion as regards the business you would like to establish.

Unfortunately, many start businesses based on TV adverts or hearsay about the profitability of the business; little consideration is given to their personal interests, level of knowledge, or experience. It is never a walk in the park for any business selection decision, because every business has its own inherent risks.

Secondly, your passion/interest and commitment are the oil that lubricates the engine that turns the wheel of your business, especially at the beginning.

ii) Start small, grow big

Interestingly, several people think to start a business you need a lot of capital. Yes, capital is a key requirement but most important is the entrepreneurial skill, the ability to connect the various pieces of the business jigsaw. Capital has been fronted as a major constraint, true sometimes it is, but in most cases the problem is created by a think-big mentality, which in most cases is out of touch with the reality on ground.

It is better to start small and grow over time; this avoids major losses and gives you time to learn the business dynamics and be able to undertake continuous improvement.

Regarding capital, other than acquiring loans at very high interest rates, in most cases, you need to consider using equity financing from family members, personal savings, and seeking financial support from friends, and limit use of debt. This reduces the pressure on your cashflows, since no principal or interest payments are required.

iii) Taxation

Taxation is a key determinant of business success, as it takes a significant portion of investment returns. In case of Uganda, the small and medium enterprises that do not qualify for tax exemptions/holidays are highly constrained by taxation, such as income tax, VAT (Value-added tax), exercise duty, etc.

Failure to understand the tax regime in which the business operates, creates a big risk for any business. Tax liability increases as time goes by, and many businesses are awakened by the tax man's bill with massive penalties. The accumulated tax liability can easily wipe out the company's balance sheet.

If you are starting a business, you need to seek to understand the tax regime and comply with the tax regulations early enough in order to avoid future risks. An understanding of the different types of taxes that are applicable to your business, and the amount you are likely to pay, should be considered when evaluating the projected profitability of your business.

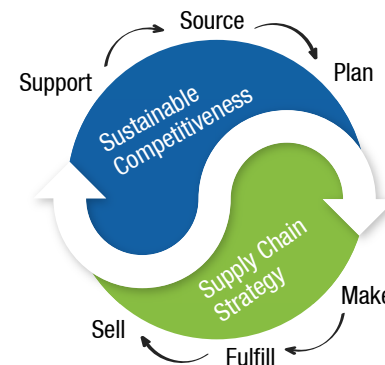


Many individuals consider profits before tax and have no clue about the taxation regime. Ideally, when evaluating the profitability of your business, you need to consider the implication of tax on the profitability, since what is due to you is profit net of tax. Remember that failure to pay the correct tax in time results in penalties, in addition to payment of the principal tax.

iv) Cost management

Inability to manage operating costs is another challenge, given the fluctuating prices of key inputs like fuel and utilities. There is a need to categorise variable and fixed costs and ensure that the variable costs are effectively controlled, especially during hard times.

v) Supply chain management



Unreliable supply chains can easily result in an unpredicted stoppage in production, resulting in loss of customers and failure to attract new ones. As an entrepreneur, there is a need to map out the supply chain and identify the major bottlenecks or concentration risk points and deal with them before such an incident happens.

vi) Customer experience

A customer is the most important person in any business because, without a customer, the business will collapse. Many start-ups struggle to expand their customer base because they don't take the issue of customer experience seriously. Many think that as long as they display the products, customers will always come and buy. Customers in this contemporary world have got a lot of choices, so for you to attract and retain them, you must give them an experience they cannot find elsewhere. Unfortunately, faced with a declining customer base, some people resort to traditional beliefs that, in order to grow your business, you need to apply witchcraft or make ritual sacrifices!

vii) Social capital

A start-up thrives on the network of friends, who sometimes buy a friend's product, not because it is the best, but because they want to support him or her. Secondly, a start-up has no adequate funds to undertake massive advertising. So, a word of mouth from friends goes a long way in creating awareness about the friend's product(s).

viii) Business ethics

For many start-ups there is always a lack of long-term perspective and therefore, most actions taken are intended to achieve short-term objectives at the expense of long-term objectives/goals. This creates a mindset of get-rich-quick, which breeds unethical behaviour such as overcharging some customers for the same products, producing/ supplying substandard products, etc. Such organizations cannot be trusted by potential

customers, as they (organizations) never keep their word.

ix) Separation of business and personal transactions

Failure to separate business and personal transactions is a big cancer that chaps start-ups. Every time the business owner needs money to meet personal expenses such as paying school fees, medical bills, funeral expenses, etc, he/she picks the money from the business. Such expenditures don't add value to the business, instead, they suffocate the business.

The best practice would be to separate personal transactions from business transactions; the business owner should allocate himself/herself a salary and stick to that. Note that the salary should be commensurate with the financial position of the business; an exorbitant salary to the business owner is likely to stifle the business.

Conclusion

Enduring to take a business through the initial stages is not an easy task, and several start-ups become part of the statistics of failed enterprises because many entrepreneurs focus on profitability with a limited understanding of the risks involved and lack passion for the endeavours. Do not become another statistic of defunct enterprises, understand the risks and mitigate them, it's the only way we shall create opportunities for the young generations.



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THE RISK OF UNDISCIPLINED PURSUIT FOR GROWTH AND HOW IT'S CAUSING CORPORATE FAILURE IN UGANDA

In September 2001, 38-year-old Patrick Kasulu decided to quit his senior assistant academic registrar job at Makerere University to venture into a new real estate project he had birthed a few months prior. The project, which would later morph into a company he named Property Masters, quickly rose to prominence. By 2003, Kasulu and Property Masters had become the face of the real estate business in Uganda, and he was famously nicknamed “Kayungilizi”, a Luganda word to mean middleman.

Under the inspired leadership of Kasulu, the company spread its operational reach from Kampala to other parts of the country, including Jinja, Mbale, Gulu, Masaka, Lira and Arua. The business soon extended to regional markets such as Kenya and Tanzania, with agent offices in the United Kingdom and the United States.

Business was booming and life was good. And to further grow his brand visibility, Kasulu used the huge cash reserves at his disposal to sponsor musicians and social events. He is also remembered to have spent massively on media advertisements.

However, by 2004, alarm bells had started ringing, and on July 1st of the same year, Kasulu was arrested and tried for issuing a UGX 48 million bad cheque to one of his clients. In 2009, he filed for bankruptcy, after more than 169 people sued him on claims of defrauding them of more than Shs3 billion.

But looking back into the recent Ugandan corporate history, Property Masters was not an isolated case. While the specific circumstances could have been different, a similar ordeal can be said to have befallen Crane Bank, Sembule Steel Mills, Nakumatt Supermarket, and loads of other once-great companies. All these entities had one thing in common: Undisciplined pursuit for growth!

In the case of Sembule Steel Mills, a company founded in 1971, analysts argue that troubles started when it took on an expansion and diversification path from its core business of manufacturing steel products, to other businesses such as banking, electronics, construction, insurance, television, and trade.

The company was the first Ugandan-owned entity to manufacture steel products and recorded remarkable growth in the initial two decades. At one time, Sembule enjoyed more than 80 percent of the market share. But by 2010, the company's empire started crumbling as a result of unsustainable debts.

For Crane Bank, the abrupt closure in October 2016 caught many Ugandans unaware, and this prompted one respected economist to ask: “How does a well-regulated and exceptionally profitable bank that is championed by a successful business tycoon, suddenly fall like a house of cards?”

Well, whichever way you look at it, the core problem of Crane Bank was the undisciplined growth in client numbers and the extension of huge loans, especially to prominent business people, that was inconsistent with prudent lending practices. This ultimately resulted in large non-performing loans that affected its financial health.

Nakumatt Supermarket, the Kenyan supermarket chain which opened its first store in Uganda in June 2009, had by 2016, established nine stores. This followed an audacious expansion plan in which the company inaccurately forecasted rapid growth in household incomes and spending among its target customers.

However, reports indicate that by 2017, Nakumatt's gross debt had exceeded Shs550 billion from an initial investment of about Shs11 billion in 2009, a situation that curtailed operations and resulted in long payment delays to suppliers. Eventually, Nakumatt closed shop in Uganda after the Uganda Revenue Authority closed Nakumatt's last three stores in August 2017 for unpaid taxes amounting to UGX 300 million.

The unfortunate stories of companies such as Property Masters, Sembule Steel Mills and Nakumatt, highlight the risks of growth obsession. These companies pursued outsized growth to their detriment.

Oftentimes, we talk about how hundreds of businesses in Uganda constantly fail before even celebrating their first anniversaries, due to factors ranging from limited access to capital, the absence of talented staff to failure to stimulate innovation. But can the same be said of the companies noted



above? I do not think so!

The unfortunate stories of companies such as Property Masters, Sembule Steel Mills and Nakumatt, highlight the risks of growth obsession. These companies pursued outsized growth to their detriment. Much of their growth simply did not fit with the strategic insight that produced their greatness in the first place.

But the goal of this article is not about gloating over the demise of those once-mighty Ugandan enterprises, it is about seeing how we can learn and apply the lessons to our own start-ups.

Let's face it; corporations face incessant pressure from shareholders and proprietors to grow as fast as possible – this is undeniable. But it is also extremely important that leaders resist the pressures to succumb to unsustainable short-term growth that may eventually undermine long-term value.

To ensure that our corporate entities thrive, we need to foster a clear balance between continuity and change. On the one hand, we should adhere to the principles that produced success in the first place, yet on the other hand, we should continually evolve, modifying our approaches with creative improvements and intelligent adaptations.

For a company like Sembule Steel Mills, the real lesson is that it exposed itself by not revitalizing its steel products business with as much passion and intensity as when it first began building that business. The great irony is that its biggest opportunities for continued growth and success lay in its core business.

Over-diversification in several businesses for which you have no competitive advantage is a recipe for disaster. It is important to consolidate your core business before venturing into other businesses, to avoid spreading yourself thin on the ground. For instance, the Afrigo Band did not reinvent itself by abandoning music to become comedians or bankers; it has done music its entire life yet has progressed through distinct creative phases.

Let me be clear: I am not trying to advocate for complacency – Quite the opposite. My point here is not that, you should never evolve into new arenas. It's okay to do so, but in a disciplined manner by;

- Acting consistently with your core values and with sound controls.
- Investing in new arenas where you can attain distinctive capability, better than your competitors.

The greatest leaders do seek growth; growth in profitability, growth with distinct impact, growth in creativity, and growth in people – but they certainly do not confuse growth with excellence.

Conclusion

If leaders can fight the urge of undisciplined pursuit for more, they will surely have a good chance of building, not only great companies but sustainable ones as well. By doing this, we shall avoid one of the greatest invisible risks causing corporate failures in Uganda and beyond, which is an undisciplined pursuit for growth – “getting rich at all costs”.



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Image of a collapsed building under construction in Lukuli–Nanganda, Makindye, Kampala, May 10, 2020.

MANAGING POTENTIAL CONSEQUENCES OF NONCONFORMITY TO REGULATIONS

Left on his own, man can be dangerous to himself, to others and to the environment in general. That is why as early as in the days of Adam, God provided regulations to Adam and Eve in form of commandments to follow, including the famous “not eating the forbidden fruit”, so that they could live a happy and orderly life.

By definition, a regulation is a rule or directive made and maintained by an authority. Regulations are intended to bring about sanity, safety, order and fairness in society. Without any form of regulation in society, the law of the jungle would apply– “survival of the fittest”. Regulations almost ought to be embedded in all aspects of activities undertaken by humankind.

Without regulations, both the corporate and the non–corporate worlds would be victims of exploitation. However, the extent of achievement of the intended purpose of the regulation is highly correlated with the system overseeing the enforcement.

Traditionally, there are norms, customs, beliefs, and values that determine what is considered right or wrong in each society. Although in a majority of cases they are not written, they are powerful tools in shaping the character and behaviors of

the members of a given society. They are handed down from generation to generation orally or by instinct. For example, in a majority of the tribes of Africa and the world over, incestuous marriage is taboo and highly condemned. For certain tribes in Uganda like the Bagisu, a boy is initiated into adulthood after circumcision, the uncircumcised are considered not man enough and are disrespected in that society.

When society began to be organized in administrative units and established central authority in about the 13th century, there was a need to put in place more formal processes or procedures for ensuring order and fairness to all. Today, there are various regulations established at international, national, and local council levels, as well as in various institutions such as schools, churches, mosques, hospitals, etc., and even in families.

Some regulations are intended to protect society against harmful activities by some organizations or individuals e.g regulations relating to protection of the environment, regulations for the manufacture, distribution and consumption of various drugs, traffic regulations, regulations for the generation, distribution and use of electricity, etc. Therefore, other than the risk of penalties and/or sanctions for non–compliance with the regulations, failure to comply with regulations creates several risks/dangers to society.

Risks /dangers of nonconformity to regulations

As mentioned earlier, the purpose of having regulations is to ensure sanity, safety, order, and fairness to all. The absence of or nonconformity to regulations means that many things can go wrong, which affects society.

Below, I attempt to explore some of the potential

risks due to non–conformity to regulations and suggest ways through which the risks can be mitigated.

i) Building control regulations 2019

Non–conformity to building control regulations has led to the erection of substandard structures, which has in turn led to their collapse and loss of lives and wastage of resources.

The lack of an approved architectural and structural designs was cited to have been the cause of the collapse of the building in the picture above. This contravenes regulation No.9 of the Building Control Act 2013, which requires an approved architectural plan.

ii) Food and drug regulations 2011

The Observer, October 17, 2016, reported that, according to the Auditor General’s report, 54 per cent of the health facilities inspected, were found with expired medicines. The risks associated with expired drugs include but not limited to drug resistance, illnesses, and in the worst–case scenario, death.

The report further indicated that 12 per cent of the 50 facilities visited, were testing for HIV using expired test kits. This increases the risk of patients getting false HIV results.

Nonconformity to the Food & Drug regulations 2011 has led to the distribution and consumption of dangerous drugs, food and beverage products, which has resulted in human and animal death in a number of cases. Several substandard and/or expired drugs are on the market; sold, in most cases by unlicensed dealers. Contaminated or expired food and beverage products can be found on the market. This violation of the Food & Drug regulations 2011, puts the lives of people at risk.

“Left on his own, man can be dangerous to himself, to others and to the environment in general. That is why as early as in the days of Adam, God provided regulations to Adam and Eve in form of commandments to follow, including the famous “not eating the forbidden fruit”, so that they could live a happy and orderly life.”



iii) Anti–money laundering regulations 2015

Nonconformity to regulations in the financial sector creates opportunities for fraud, embezzlement of funds and money laundering. The Anti–money laundering regulations 2015, for instance, spell out various control measures to curb money laundering activities. If these controls are not complied with, chances are high that money laundering will flourish in the country.

iv) Occupational safety & health (OSH) regulations

According to research by Arthur Kiconco, Nathan Ruhinda, et al, globally, about 1000 people die and close to 860,000 people sustain injury at work daily. Their findings further indicate that most injuries, approximately 70%, occurred among night shift workers.

Conformity to OSH Act 2006 means that there is a provision of protective gears to workers, safe means of access to and exit from the premises, reasonable measures are taken to ensure the premises remain safe without risk to health of workers and other stakeholders, inter alia.

Due to failure to comply with such regulatory requirements, several workers, especially in factories, have lost their limbs (hands or legs) to machines, structures are erected with no access roads, to mention but a few dangers that have materialized.

v) Computer Misuse Act/regulations

Non–conformity to computer misuse regulations has led to cyber harassment, unlawful access to information, offensive communication, misuse or abuse of information and fraud, where billions of moneys have been lost through hacking.

iv) Traffic and road safety regulations



Non–conformity to traffic and road safety regulations 2004 has led to many fatalities. According to the Annual crime police report released in May 2022, 4,159 people died in road accidents in 2021. The report indicated that on average, motorcycle taxis (Boda bodas) alone killed five people each day. According to the report, there were 17,443 road accidents reported in 2021, an increase of 42% from the 12,249 reported the previous year. There was a 14% increase in the number of people killed in 2021 to 4,159 from 3,663 in 2020.

These ugly statistics, mainly attributed to reckless driving, led to the greatest number of accidents, followed by driving vehicles in dangerous mechanical conditions. Once most drivers/riders get into their automobiles, they totally disregard the traffic and road safety regulations; this has resulted into the unfortunate loss of many lives.

Interventions to minimize likelihood and impact of non–conformity to regulations

Interventions to ensure conformity to regulations ought to be systematic, consistent, and without fear or favour. Some interventions are suggested below:

a) On Building control regulations– professionals like Architectural designers, engineers, environmentalists (where applicable), plumbers, extra, need to be employed from the start of building concept to the very end of the process.

b) Food and drug regulations– Before you take a decision to buy a consumable product, you need to first inspect it to find out whether it is certified by UNBS (Uganda National Bureau of Statistics), and whether it is still within the manufacturer’s expiry period. Additionally, check out for, if you

are able, ingredients of that product to rule out contamination with carcinogenic substances.

c) Anti–money laundering regulations– Training the stakeholder overseeing the enforcement, and deploying modern tools to detect the practice, should be made a priority. This is so because technology constantly evolves, and the offenders are increasingly becoming sophisticated.

d) Occupational safety and health (OSH) regulations– There is need to appoint an OSH champion/Team leader in the organization to monitor and ensure conformity.

e) Computer Misuse Act/regulations– Deterrent punishments, including publishing and banning offenders, if possible, from using computers, need to be put in place to enhance the integrity and social discipline.

f) Traffic and road safety regulations– A national driving institute should be established. All persons seeking to acquire a driving license should provide a driving certificate from the institute.

Additionally, driving permits should be digitized, with a provision to allow tagging of all offences committed onto the permit, such that when the number of offences exceeds a certain threshold, the permit is cancelled, and the permit holder is not allowed to drive any car until the expiry of a certain period.

Conclusion

To effectively deal with the challenges and risks of nonconformity to regulations, there is a need to sensitize the population on the key regulations that they need to conform to. I am aware this can be an uphill task, but the good news is that for each set of regulations, there is a specific entity that is mandated to ensure compliance with those regulations. Besides creating awareness, the responsible entities also need to ensure compliance through enforcement, which should be consistent, impactful, and devoid of corruption.

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EFFECTIVE RISK MANAGEMENT: A KEY SUCCESS FACTOR

Today the world operates under extreme uncertainties caused by many factors, but recently, the Ukraine– Russian war and Covid–19 have escalated the uncertainties globally. The former has disrupted global supply chains, especially for oil and gas products, wheat, and fertilisers. Ukraine is the leading global producer of wheat, while Russia is the third leading producer of oil and gas, after Saudi Arabia and the United States. With the war raging on in Ukraine and the imposition of trade and diplomatic sanctions on Russia by the West, the supply of those products has been dramatically affected, leading to scarcity of the products globally, and a ripple effect has been high inflation worldwide.

The other big disruptor, as mentioned above, is the Covid–19 pandemic, which broke out in China towards the end of 2019, and spread across the entire globe, infecting millions of people and causing millions of deaths. This threat to humanity forced various governments to take draconian measures such as lockdowns and restrictions on international travel.

This created a lot of uncertainties, that led to the crashing of many stock markets, and pushed many economies into a recession. Speaking of disease outbreak, after the easing of Covid–19, in the last quarter of 2022, Uganda grappled with the Ebola Sudan virus, which broke out on September 20, 2022, in Mubende district, and later spread to other districts such as Kasanda, Kyegegwa, Kampala, Kagadi, Wakiso, Jinja, etc. By the time of writing this article in December 2022, the disease had caused 55 deaths countrywide, according to a report by the Ministry of Health.

The harsh and unpredictable environment has greatly affected businesses, many of which have collapsed. Survival and growth in such an uncertain environment require effective risk management, which can help the organisation to protect its interests, while pursuing its goals, by reducing the impact of the threats to acceptable levels, while exploiting the opportunities.

It is a known fact that increased uncertainty increases risk. Risk is a double–edged sword; it can bring opportunities and challenges to an enterprise because it is the effect of uncertainty on an objective, whether positive



or negative. Either way, it affects every strategic, tactical, and operational decision in the organisation. The most challenging decision every organization or individual grapples with, is how to strike a balance between risk and return, because the higher the risk, the higher the returns. If there is a possibility for loss, there is also a possibility for profit. Even then, risk–taking requires careful thoughts about the implications of the risk to the organisation's strategic competitiveness and its ability to continue its operations.

Unfortunately, risk management is one of those subjects that don't feature predominantly in both board and management discussions. Most discussions at these levels are mainly focused on the pursuit of opportunities. However, the irony is that risk and opportunities are “inseparable”, you cannot exploit any opportunity successfully without effectively managing the associated risks. I can dare say that success is a function of effective risk management. Many of us see various opportunities in the environment and indeed attempt to exploit them, but not all of us succeed; the difference between success and failure is effective risk management.

It is crucial to note that risk affects every decision we make; and risk–taking is inevitable because the value is created out of taking risks.

In the advent of sophisticated technology, where cyber risk and its perpetrators are more aggressive than ever before, the time when clients and the public demand more than they offer, where occupational health and safety have become critical, and in times where business regulation has become more robust and complex, there is need for organisations to change their mindsets towards risk management.

As part of the strategies to address the shocks that come along with risks, managers, leaders of businesses, and public service organisations, need to be proactive and foster resilience through well–thought–out risk management practices.

The signs that your organization is effectively planning for and managing risk include but are not limited to the following;

i) Organisational structure

Having a dedicated team (Risk management department/division), whose key roles include the development of risk management policies, coordination of

risk management activities, and creation of risk awareness, to foster a culture of risk management in the organization, and having a focused discussion on risk management in both executive management, and board meetings, are good signs that the organization takes risk management seriously.

Additionally, the head of the risk management department/division is of appropriate seniority, most appropriately, a senior executive.

ii) Risk management is an integral part of business strategy

Risk management is part and parcel of the organization's strategic priorities. Some organizations never appreciate risk management issues until they encounter risk exposures.

iii) Management commitment to Enterprise Risk Management (ERM)

Management commitment to ERM manifests through financial and other resource commitment towards risk management activities, acting on the recommendations from the Chief Risk Officer, and setting the right tone at the top.

It becomes evident that your organisation is committed to risk management if there is support for risk management capacity building, investment in process reviews, stress tests and motivation of risk champions, and cascading the level of risk awareness from top to bottom.

iv) Level of risk awareness in the organization

High level of risk awareness is a good indicator that risk management is embedded in the organization. When employees are aware of the risks that face the organization, and the controls available to address the risk drivers, they are in a better position to manage the risks effectively.

To ensure effective risk management, the following practices, among others, need to be adopted:

a) Institutionalization of risk management

To embed a risk management culture in an organisation, there must be a deliberate effort to:

i) Establish appropriate risk management structures at all levels of the organization, that is, the board risk committee (Board level), Risk management committee (Executive level), Chief risk officer (Functional level), and risk champions (Operational level).

ii) Set a risk appetite, which defines the nature and amount of risk the organisation is willing to accept in pursuance of its objectives. This helps to set the board's tone as regards risk management in the organisation.

iii) Establish risk management policies and procedures, which guide the staff and management regarding risk management.

iv) Establish monitoring and reporting mechanisms. The board and executive management need to be kept abreast with existing and emerging risks, and the actions being taken to address the risks.

v) Have an early warning mechanism in the form of predictive risk indicators to ensure proactive risk management

vi) Create awareness of risk and how it can be effectively managed across the entire organisation.

Broadly, when all these are done, then risk management can be said to be fully institutionalized in an organisation.

b) Building stakeholder capacity

Sometimes risk comes from our stakeholders such as regulators, the public, suppliers, staff, investors, and many more sources. You can reflect on the stakeholders that create more risks to your organisation. Some of these stakeholders “innocently” carry the risks and they do not know the implications they have on your organisation.

The best practice under such circumstances is to create risk awareness so that the stakeholders appreciate the burden they have on you.

c) Adopting business continuity planning

This is mainly about preparing to keep operating even when the organisation is exposed to major shocks. While it is an old practice in the rest of the world, Uganda is only adopting it at an institutional level.

Business Continuity Plan (BCP) indicates the potential risk exposures to an organisation, the response and recovery strategies, and areas of assurance for continuity during emergencies that can threaten business operations. To optimise its value, it is necessary to exercise and update it regularly, since most risks keep metamorphosing with changes in the operating environment.

Another critical aspect of increasing the effectiveness of the BCP is to include it in the strategic plan and allocate resources for monitoring, testing, and updating it.

BCP has helped many organisations (private and public) to sustain their operations and markets during challenging times of Covid–19 disruption. With less predictability of both natural and human–inflicted risks, a BCP helps to develop resilience against risk exposures.

Additionally, the merging requirement in the procurement process, where most of the entities require this plan as part of the tender qualifications, is another reason to have a BCP. This implies that your organisation must demonstrate the existence of a BCP to be able to win a tender.

It is important to note that BCP is not a preserve of the private sector. We also observe public entities such as the NSSF, the Bank of Uganda, and the Ministry of Finance Planning and Economic Development, among others, adopting BCP. In this article, I may not detail the nitty–gritty of a BCP, but it is something critical in modern times of complexity and dynamism.

Conclusion

It is crucial to note that risk affects every decision we make; and risk–taking is inevitable because the value is created out of taking risks. However, it is equally important to understand the nature and level of risk you are taking. A rule of thumb is that risk should be taken when the expected benefit(s) is/ are higher than the costs arising from the materialization of the risk. The organization needs to develop a comprehensive framework for effective risk management if it is to increase its chances of attaining organizational objectives.



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THE INTEGRAL ROLE OF INTERNAL CONTROLS IN CORPORATE DEFENSE MANAGEMENT

The Ethical Board Room Group Ltd. defines corporate defence as a collection of programs, measures, and strategies that an organization uses for its self–defense.

An effective corporate defence program has got several integrated components, that work together to secure an organization's processes, systems, products, and people. These components include governance, risk management, security, compliance, resilience, intelligence, and assurance. This article, however, focuses on the central pillar of these components, which is the internal control mechanism.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) –Integrated Framework, defines internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. But first, let us look at the objectives of having internal control.

Objectives of internal controls

The overarching objective of internal controls is to safeguard an organization's interest and further its objectives. The other operational and tactical objectives are to minimize risks, protect assets, ensure the accuracy of information, promote operational efficiency, and encourage adherence to policies, rules, regulations, and laws.

Controls are designed in different ways and serve different specific objectives, but the broad categorization of controls is described below.

Types of controls

Before we look at the role of controls, it is important to know the different types of controls. Controls are described or categorized based on their effect on the risk. They are, therefore, categorized as predictive, preventive, detective, and corrective controls.

i) Predictive controls

Predictive controls are controls that give an early warning signal about the likely materialization of a risk. An organization should be able to institute a set of controls with capabilities to identify and predict the future threats and vulnerabilities, considering the current and future business, economic, political, and social environment. One such control would be the organization remuneration rate in comparison with the market rate; if yours is much lower than the market rate, chances are high that you will lose key talents to the competitors. The comparison helps to give you an early warning signal of potential loss of key talent before it happens.

ii) Preventive controls

These are controls that reduce the likelihood of a risk materializing. Again, any organization with a robust corporate defense strategy needs to have sufficient measures to shield itself against potential threats. Preventive controls are considered as the best among all controls, because of their ability to prevent

adverse events from occurring and lessen the need to detect mistakes after the incident. These could include network firewalls, segregation of duties, access controls, etc.

iii) Detective controls

Detective controls are designed to identify what has gone wrong, because there can never be any set of control systems that is without inherent weaknesses. Detective controls should be put in place with an intention to detect undesirable incidents. Detective controls include but not limited to reconciliations, fire detectors (alarms), inventory count, surprise checks, internal audits, among others. They help to adduce evidence that a loss or an error has occurred, but do not prevent them from occurring. They provide evidence that preventive controls are not operating as intended.

iv) Corrective controls

Corrective controls are meant to fix what is broken. Corrective/reactive controls are key in responding to deficiencies identified and help prevent undesirable events from recurring. The fact is that corrective controls, acting as preventive mechanism for similar events in the future, signify the continuous nature of interaction and interdependence that exist between all the various types of controls.

The role of internal control system

Internal controls play an integral role and are not just another requirement by the auditors and other process assurance professionals, but a key safeguard that protects the organization's resources by preventing, detecting, or correcting errors and/or inappropriate actions or behavior by those running the business. They are rather an important pillar of any company's corporate defense system.

Internal controls as a catalyst of continuous improvement

Internal controls are a vital element that intertwine with various types of processes and rules to create an effective defense mechanism for an organization.

Because organizations are susceptible to threats due to inadvertent mistakes or intentional manipulation that might result in financial loss, a decline in market share, data loss, cyber threats etc., it is imperative for institutions to deploy an effective internal control mechanism.

The role of internal controls lies in their ability to protect the organization from risks that could have negative consequences while enhancing the upside thereof.

The following are some of the specific roles that the internal control infrastructure plays to ensure the smooth and healthy running of any business undertaking:

a) Internal controls serve as an early detection mechanism to identify process deficiencies before they potentially become serious problems. For example, reconciliations are normally performed to detect any variances between two sets of records. Detecting issues earlier in time saves both time and resources required to fix the problem, hence reducing the magnitude of damage that the deficiency could have presented.

b) A strong internal control system improves efficiency in operations by ensuring that an organization's operations are cost–effective, reducing wastage, while maintaining service quality. Efficient operations will increase profitability and growth potential of the organization.

c) Internal controls help in the reduction of errors, by defining protocols and procedures to minimize mistakes and make improvements as needed. The organization reduces financial losses and can improve its reputation by doing what is right and avoiding unwarranted missteps.

d) An effective set of controls, if well implemented, enhances accountability, and improves compliance with policies, procedures, and regulatory and statutory requirements.

“The overarching objective of internal controls is to safeguard an organization's interest and further it's objectives.”

Limitations of internal control systems

Internal controls have limits on what they can accomplish; hence it's essential to have ongoing reviews and monitoring of the control systems.

i) Collusion

Individuals along the process value chain could collude and act together to undermine the effective functioning of the controls. This complicity makes the process appear as if everything is going on well, whereas not. Collusion can be minimized by having an inbuilt internal check system within the organization– e.g., a whistleblower.,

ii) Control override

Certain individuals might have the authority

to provide exceptional approvals by overriding certain control protocols, which undermines the underlying objectives of the control system.

Management should always, as much as practicable, avoid control overrides, unless it is out of absolute necessity. This is possible with proper planning of activities.

iii) Cost consideration

Installation of certain controls is expensive, for example, cyber security infrastructure, firefighting equipment etc. These interventions are sometimes viewed as wasteful expenditures, as the benefits are indirect; yet the materialization of the risk could have a devastating impact on the organization.

How can the control environment be improved?

Despite the inherent limitations associated with internal controls, they remain one of the most effective defense mechanisms for the organization.

The following approaches can be employed to improve the effectiveness of the internal control system.

i) Provide adequate awareness to staff

It is important to periodically sensitize staff and other stakeholders about the importance of instituting and maintaining an effective internal control system.

ii) Perform a self–evaluation

Implementers of the agreed controls should always perform self–evaluation to assess the effectiveness of the controls within their respective business processes. This ensures ownership of the controls by the process owners, as the first line of defense.

iii) Regular review of the controls

Besides the process owner, an independent team, most especially from risk management or internal audit, should regularly review the internal controls and provide assurance to management and the board regarding the adequacy and effectiveness of the internal controls.

Conclusion

Internal controls are a key safeguard that helps an organization to run its business efficiently and effectively. That notwithstanding, internal controls have inherent limitations, and therefore, it is important that a continuous review of internal controls is part of the organization's regular processes. If the right controls are implemented, they can ensure business continuity, promote accountability in every process and business unit, prevent avoidable errors, irregularities, and protect the organization's reputation.

CROSSWORD PUZZLE: TEST YOUR KNOWLEDGE

1	23	24	25		26		2	27
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ACROSS:

1. A statement of intention to inflict pain, injury or damage,6
2. A term, slogan, logo, or other indicator—to provide notice to potential infringers that common law rights in the mark are claimed,abbr.2
3. Time of inactivity,4
4. A machine for gathering Hay,4
5. Represents innovation, independence, determination, courage, sincerity, and activity,7
6. Program that rewards customers who repeatedly interact with a brand, abbr.3
7. Otic; relates to this organ, 3
8. A signed, written, and published directive from the Head of state or government,abbr.2.
9. Drivers permit with enhanced features including biometric data, abbr.3
10. The just noticeable difference in sound intensity, abbr. 2
11. Unit of data that has been passed down from an OSI (Open Systems Interconnection) layer or sublayer to a lower layer, abbr. 3
12. The face value of a share or other security instrument, 3
13. Government–owned investment fund formed by the Communist Party of Vietnam in 2005 to invest in the country’s state–owned enterprises, abbr.4

14. A person who excels at a particular sport or other activity,3
15. Community formed by people and exercising permanent power within a specified jurisdiction (plural),6
16. Latin phrase meaning before mid–day, abbr.2
17. The invisible gaseous substance surrounding the earth,3
18. A measure of inflation that is used to calculate cost of living and wage escalation, abbr.3
19. A set of teaching and learning tools designed to enhance a student’s learning experience by including computers and the Internet, abbr.3
20. Combining form denoting soap,5
21. In addition; besides,4
22. The basic cause, source, or origin of something,4
- DOWN:
1. Find or discover by investigation (plural),6
2. Used to signify that additional material will be added at a later date, abbr.2
9. Prepare text or video for eventual publication,4
10. Enables the secured party to obtain control over the security entitlement, and therefore the securities account, abbr.4
11. Cause great fear or nervousness in; frighten, (plural),6

12. Someone whose job is helping someone in a higher position, especially by writing letters, arranging meetings, and making phone calls,abbr.2
13. Not moving or making a sound,5
15. Keep safe or rescue (someone or something) from harm or danger,4
23. An expression or gesture of greeting,5
24. Please reply, in French, abbr, 4
25. Reference to when a ship or vessel is expected to arrive at a specific destination, abbr.3
26. A test to assess suitability or performance of something, especially a new product,5
27. The process of associating numbers with physical quantities and phenomena,11.
28. Measures the money made or lost by a mutual fund, abbr.3
29. Substance capable of bringing about the reduction of another substance as itself is oxidized,(plural),8
30. Additional to what is required for ordinary use,5
31. The first time a company issues shares to the public,abbr.3
32. Used in films and TV to signal the end of a conversation, abbr.2

Solution to Issue No. 5

C	A	V	E	A	T		O	C
U	B	E	R		M	E	M	O
R	E	T	R	I	E	V	E	D
S	T	O	O	L		E	N	E
E	T		R	O	S			S
D	E	N	S		O	T	P	
	D	O		C	R		O	N
A		N	E	A	R	I	N	G
A	C	E		T	Y	R	E	S



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