MINISTRY OF WATER AND ENVIRONMENT
LAKE VICTORIA ENVIRONMENTAL MANAGEMENT
PROJECT PHASE II
IDA CREDIT NO.4531-UG

REPORT AND OPINION OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

OFFICE OF THE AUDITOR GENERAL
UGANDA
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## ABBREVIATIONS

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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>FMM</td>
<td>Financial Management Manual</td>
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<tr>
<td>FY</td>
<td>Financial Year</td>
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<tr>
<td>GEF</td>
<td>Global Environmental Facility</td>
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<td>GoU</td>
<td>Government of Uganda</td>
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<td>HRD</td>
<td>Human Resources Department</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IPs</td>
<td>Implementing Partners</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>LVEMP</td>
<td>Lake Victoria Environmental Management Project Phase</td>
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<tr>
<td>MAAIF</td>
<td>Ministries of Agriculture Animal Industries and Fisheries</td>
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<tr>
<td>MoUs</td>
<td>Memoranda of Understanding</td>
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<tr>
<td>MWE</td>
<td>Ministry of Water and Environment</td>
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<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>TAI</td>
<td>Treasury Accounting Instructions</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
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LAKE VICTORIA ENVIRONMENTAL MANAGEMENT
PROJECT PHASE II

IDA CREDIT NO.4531-UG

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the Lake Victoria Environmental Management Project Phase II (LVEMP II) for the year ended 30th June 2014. These financial statements comprise of the Statement of Fund Balance as at 30th June 2014, Statement of Receipts and Expenditure together with other accompanying statements, notes and accounting policies.

Management Responsibility for the Financial Statements
The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Government of Uganda and International Development Association (IDA) regulations and guidelines and for maintenance of such internal controls that are necessary for the fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility
My responsibility as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor’s judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers
internal controls relevant to the entity’s preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

PART "A"

Opinion

In my opinion, the financial statements fairly present in all material respects the financial position of the Lake Victoria Environmental Management Project Phase II as at 30th June 2014 and the income and expenditure for the year then ended in accordance with the basis of accounting stated under note 2 (a) to the financial statements and in conformity with the donor reporting guidelines and terms and conditions.

John F. S. Muwanga
AUDITOR GENERAL

24th December 2014
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL FOR THE FINANCIAL YEAR

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

1.0 INTRODUCTION

I am mandated by Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), to audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the above project to enable me report to Parliament and the Development Partners.

2.0 BACKGROUND TO THE PROJECT

The Lake Victoria Environmental Management Project Phase II (LVEMP II) is funded by the World Bank through the International Development Association (IDA); the Global Environmental Facility (GEF) and the Swedish International Development Agency (SIDA). The East African Community partner states of Uganda, Tanzania and Kenya, where the project is being implemented also contribute funds. The IDA funds the national level activities while the GEF and SIDA fund the regional ones. The overall project cost is USD.90 million.

In Uganda, the project cost is USD.27.5 million and is funded through Ministry of Water and Environment (MWE).

3.0 PROJECT OBJECTIVES

The project objectives include:-

- Improving the collaborative management of trans-boundary natural resources of the Lake Victoria Basin for shared benefits of the partner states; and
- Reducing environmental stress in targeted pollution hot spots and selected degraded sub catchments to improve livelihoods of communities who rely on the Natural resources of Lake Victoria Basin.
4.0 **PROJECT COMPONENTS**
The Project has four main components focusing on areas below;

4.1 **Strengthening Institutional Capacity for Managing Shared Water and Fishery Resources**
- Building the capacity of existing regional and national institutions to harmonize policies, legislations and regulatory standards, and develop basin wide management framework.
- Improving cooperative management of the shared trans-boundary water and fisheries resources of the Lake Victoria Basin.

4.2 **Point Sources Pollution Control and Prevention**
Reducing environmental stress within the lake and its littoral zone, through the rehabilitation of priority waste water treatment facilities, promotion of industrial cleaner production technologies, installation of the lake navigation equipment, and implementation of a contingency plan for the oil spills and hazardous waste management in the Lake Victoria Basin.

4.3 **Watershed Management**
- Reducing environmental stresses from the Lake Basin through the implementation of sustainable soil and water management practices and livelihood improvement interventions, using community driven development approaches.
- Improving water use efficiency in the Lake Victoria Basin and generate externalities to the downstream countries.

4.4 **Project Coordination and Management**
Providing resources necessary for the effective project coordination, regional and national level communication, monitoring and evaluation of activities and sharing of information among countries.

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

a. The Financial Statements for LVEMP II have been prepared in accordance with consistently applied International Accounting Standards (IAS) and that they present fairly the financial performance and position of the project as at 30th June 2014.
b. Sufficient internal controls have been applied consistently throughout the year to safeguard the assets of the project and mitigate the risk of misstatement of the financial statements.
c. All necessary supporting documents and records have been maintained and are in agreement with the financial statements presented.
d. Goods and services have been procured in accordance with relevant financing agreement and the Government of Uganda (GoU) procurement regulations.

e. Project funds are managed in compliance with the covenants contained in the financing agreement as well as GoU financial regulations.

6.0 PROCEDURES PERFORMED

1) Revenue/Receipts
   Obtained schedules of funds provided by the development partners and Government of Uganda and reconciled the amounts to the entity’s cashbooks and bank statements.

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

3) Internal Control System
   Reviewed the internal control system and its operations to establish whether the controls were sound and were applied throughout the period under review.

4) Procurement
Reviewed the procurement of goods and services under the Project during the period under review and reconciled with the approved procurement plan.

5) **Periodic reports of the project**
   Reviewed the agreement provisions, operational manual, aide memoires and reports and reconciled them with the Project activities during the period under review.

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

7.0 **AUDIT FINDINGS**

7.1 **Project Implementing Partners**
   The management of LVEMP signed memoranda of understanding (MoUs) with two Ministries of Agriculture Animal Industries and Fisheries [MAAIF], Works and Transport) in August 2011, 9 districts (Mubende, Masaka, Kalangala, Namayingo, Mityana, Gomba, Rakai, Mpigi and Kalungu) in April 2012, and 4 other organizations (National Water and Sewerage Corporation, NARO-Kawanda, Makerere University and NaFIRRI) in August 2011 to implement specific project activities.

   Documents relating to the Implementing Partners (IPs) however revealed that all the signed MoUs did not specify the amount of money each entity was supposed to receive and the timing of remittances. From July 2012 to April 2014, the two ministries and the four other organizations had not received any project funding and the districts on the other hand took 24 months (ie April 2012 to April 2014) to receive funding. This was a prolonged delay for a project whose initial implementation period was from 29th Oct 2009 to 30th June 2013. As a result of such delays the project was extended for two years up to 30th June 2015.

   Management attributed the delays to the long lead time from signing of MoUs to disbursement of funds, as a number of processes had to be completed before disbursement.
Article II and III of the signed MoUs requires the IPs to prepare work plans and submit to the National Coordination Office for approval. Although the work plans were prepared and submitted, audit was not provided with the minutes for the meetings in which they were approved. I therefore cannot rule out the use of non-approved work plans. Although management indicated during exit meeting that the documents were available, they were not provided for verification.

A review of work plans and remittances to the IPs revealed disparities ranging from IPs getting more funds than had been planned, while some that had not been planned for received funding. Management did not provide evidence to confirm that the work plans were amended.

Although management attributed the variances to the fact that funds for the subprojects were budgeted under the respective implementing partner overseeing the implementation of subprojects in the districts, no documentary evidence was availed in support of that explanation.

I have advised the project coordinator to develop a new implementation plan, fast track it and closely monitor its implementation so as to be able to meet the new deadline of 30th June 2015.

7.2 **Low absorption of funds by the Implementing Partners (IPs)**

The project, which started on 29th Oct 2009 was supposed to close on 30th June 2013, however due to the delayed implementation of the agreed activities the project was extended for two more years from 1st July 2013 to 30th June 2015.

Despite the extension, low absorption of funds by IPs was noted, which casts doubt on whether all the planned activities would have been implemented by the end of the extended period. A total of UGX.3,880,599,296 was released to the IPs but only UGX.439,868,485 (11%) had been utilized by the end of the financial year, leaving a balance of UGX.3,533,295,929 (89%) un-utilized. **Table refers.** I further noted that by the time of audit (September 2014), all the un-spent balances had not been accounted for.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Voucher No. / Disbursement date</th>
<th>Amount Disbursed</th>
<th>Amount Spent</th>
<th>Unspent balance at 30/06/2014</th>
<th>% Performance</th>
</tr>
</thead>
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As a result of low absorption, most of the planned activities for the year under review were not implemented and is likely to result in another request for project extension. Consequently, this lowers Uganda’s chances of benefitting from the second project phase (APL3 (FY13-FY18), which is already overdue.

Management attributed the delay in disbursement of funds to the delay by the Districts to open up LVEMP designated bank accounts and also the delay by some implementing partners to submit progress reports and accountabilities.

I have advised the Project Coordinator to enhance planning, monitoring and reporting systems with the view of ensuring that all planned activities are carried out within the stipulated time frames.

7.3 **Unaccounted for funds**

a) **Personal Advances**

UGX.30,758,200 paid out for various activities remained unaccounted for, contrary to Chapter 1V section 217 of the Treasury Accounting Instructions (TAI) 2003, which requires public officers to account for funds advanced to them within 60 days. This was caused by the laxity of management to adequately enforce the internal controls relating to accountability of advances.

I have advised management to recover the funds from the concerned officers.

7.4 **Project counterpart fund Account**

Section 4.1.2(IV) of the Financial Management Manual (FMM) required the project to operate a separate account in Bank of Uganda for the purposes of receiving and managing the government’s counterpart funds. Contrary to this, it was noted that
the project used one operational account for both donor and counterpart funding, resulting in co-mingling of funds.

This may result in the use of donor funds to pay for disallowed expenses, improper accountability and misstatement of financial statements. This arose due to laxity of the project management. Management acknowledged the anomaly and promised to take corrective action by ensuring that a separate account is opened.

I await management’s action on this matter.

7.5 **Human Resource Management**

a) **Annual Leave**

Section C-a (2) and section C-b (1 & 5) of the Uganda Public Service Standing Orders, Jan 2010, stipulate that annual leave is a right applicable to public officers employed on full time basis and when due, should be obligatory. A review of the employee personal files revealed that some officers had not taken leave, right from time of recruitment. This was attributed to management’s failure to prepare a leave roster and to encourage officers to go on leave. Although management in its response stated that a leave roster was in place, it was however not provided for audit verification.

I have advised management to always prepare annual leave roasters and to encourage officers go for leave.

b) **Incomplete Personal Files**

A review of staff personal files revealed lack of academic papers and appraisal forms, contrary to section (P-d) sub sections 4 and 5 of the Uganda Public Service Standing Orders, Jan 2010, requiring all documents which affect the official record of a public officer to be properly kept.

This is an indication of poor record keeping by the human resources department (HRD). In the absence of these records, the competences/abilities and performance gaps cannot be determined and thus the appraisal of the HR is made cumbersome.

Although management attributed the anomaly to the centralization of the main staff files at the Ministry’s Headquarter, by the time of this report, the files had not been updated.
I advised management to always update public officer’s personal files for proper human resource management.

7.6 **Motor Vehicle Records**

A review of the asset’s register revealed that the project owned a number of vehicles however, contrary to paragraph 818 of the TAI, Part 2 (public stores), it did not maintain log books or operating records for eleven motor vehicles. In the circumstances, it was not possible to ascertain whether the vehicles were properly maintained and/or carrying out project activities.

Management explained that the vehicles in question were being used by the implementing partners and promised to urge them to maintain logbooks.

I advised the project management to always maintain log books or operating records to ease the management of the vehicle fleet.