

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF ELECTORAL COMMISSION

FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Electoral Commission for the financial year ending 30th June 2017. These financial statements comprise the Statement of Financial Position as at 30th June 2017, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 43.

In my opinion, the financial statements of Electoral Commission for the year ended 30th June 2017 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015 and the Financial Reporting Guide, 2008.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Institute in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have

determined the matter described below as a key audit matter to be communicated in my report;

- **Inadequate Controls Surrounding Management of Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears. The variances between the reported figures in the financial statements and the amounts verified by Internal Auditor General formed a basis of my qualification of consolidated GOU financial statements for the year ended 30th June 2016.

Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that payables amounting to UGX.3,216,641,565 had been outstanding for a long time. I further observed that the reported amount comprises UGX.472, 324,176 which relates to unpaid allowances for data entrants who did work for the Commission in 2009/2010 and UGX. 2,744,317,389 penal interest for PAYE and WHT arrears of the financial year 2010/2011.

I established that the penal interest arose after consent order agreement between the Commission and the Commissioner General-Uganda Revenue Authority (URA) in which the Commission was ordered to pay the principal tax of UGX.1,991,143,949 to URA and apply for a waiver of the penal tax of UGX.2,744,317,389 to the Ministry of Finance, Planning and Economic Development. The principal tax was subsequently settled.

I further established that there was no sufficient budget provision for settlement of these domestic arrears. For example, during the financial year 2017/2018, the Ministry provided an indicative planning figure of only UGX 69,204,547(14.7%) for settlement of part of the outstanding allowances. This poses a risk of diversion of funds for settling the obligations. It also creates risks of litigation and payment of fines.

The Accounting Officer explained that a request for a waiver of the penal interest had been tendered to the Ministry of Finance and a response is awaited. He further stated that the amount that had been provided for part settlement of outstanding allowances was released and a part payment would be made to some of the creditors.

Management should follow up the matter with the Ministry of Finance Planning and Economic Development to obtain a penal interest waiver and sufficient budget provision to clear outstanding allowances.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Mischarge of expenditure**

Paragraph 4 (d) of the Accounting Officer's appointment letter issued by the PS/ST requires Accounting Officers to use financial and other resources for the purposes for which they were voted. On the contrary, a sum of UGX.244, 031,311 was charged on codes other than those for which funds were appropriated without authority. The

practice undermines the purpose of budgeting as a control tool. It also results in misleading financial statements.

Management acknowledged the anomaly and attributed it to unforeseen operational challenges.

Management is advised to always comply with the approved budget and where inevitable seek reallocation of funds in accordance with prescribed procedures.

- **Nugatory expenditure**

The Commission paid a sum of UGX.95, 035,000 in respect of court cases that arose from noncompliance with either election related procedures or court directives. The expenditure is considered wasteful as it would have been avoided had management fully complied with the said election procedures and court directives.

Whereas Management attributed the fines and penalties to Court's discretion I advised them to always comply with the stipulated election procedures and court directives as this would save public funds.

- **Non – deduction of withholding tax**

Section 119 of the Income Tax Act, 1997 as amended, requires every government institution to withhold 6% of the gross amount paid it is in excess of one million Uganda shillings. It was however observed that payments worth UGX.453,000,000 were made to various suppliers without deducting withholding tax amounting to UGX.27,180,000.

Non-compliance with the tax law may attract fines and penalties. Management attributed the anomaly to inactive IFMS tax status of the suppliers at the time.

Management is advised to liaise with the Ministry of Finance, planning and Economic Development to ensure activation of IFMS tax code and subsequently recover and remit the tax without delay.

Responsibilities of the Accounting Officer for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Commission.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the Public Finance Management Act, 2015 and the Financial Reporting Guide, 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Commission's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Commissions' operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:-

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

collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to fail to deliver its mandate.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide the management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

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

A handwritten signature in black ink, appearing to read 'J.F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

10th November 2017