



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF KYAMBOGO UNIVERSITY**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS**  
**OF KYAMBOGO UNIVERSITY FOR THE**  
**YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**Qualified Opinion**

I have audited the accompanying Financial Statements of Kyambogo University, which comprise the Statement of Financial Performance, the Statement of Financial Position as at 30<sup>th</sup> June 2017, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 45.

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of my report the financial statements of the Kyambogo University for the year ended 30<sup>th</sup> June 2017 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015.

**Basis of Qualified Opinion**

• **Un authorized Excess Expenditure**

Regulation 18(2) of the Public Finance and Management regulations, 2016 requires an Accounting Officer who intends to spend monies in excess of the amount appropriated by the Appropriation Act, to request the Minister, in writing, for approval.

A review of the statement of financial performance and the statement of appropriation by nature revealed that the University incurred UGX.6,654,560,404 over and above the approved budget without prior authorization.

Unauthorized over expenditure implies lack of budgetary discipline and undermines the intentions of the appropriating authority.

Management indicated that the excess expenditures were partly incurred to settle domestic arrears which had not been budgeted for and UGX.1,819,942,125 was spent from excess receipts of donor funds.

I advised the Accounting Officer to always enforce budgetary discipline and adherence to regulations.

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 University 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 matters described below as key audit matters 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 the 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 procedures performed, I observed that that the University domestic arrears increased to UGX.15,020,612,379 in the period under review of which, a total of UGX.9,316,217,583 accrued during the financial year.

Further analysis noted that only UGX.8,523,652,991 out of UGX.14,228,047,787 for the previous year outstanding commitments was paid leaving a balance of UGX.5,704,394,796.

This may be as a result of existence of a weak and ineffective internal control system over the control and management of domestic arrears. For example, the government commitment control system was not adhered to.

The accounting officer explained that the main cause for the domestic arrears was under release of funds from the Ministry of Finance Planning and Economic Development (MoFPED) especially under the development budget.

I advised management to adhere to the commitment control system.

### **Emphasis of Matter**

Without qualifying my opinion further, I draw your attention to the domestic arrears, receivables and investment activities balances in the financial statements:

- **Outstanding receivables**

a) It was noted that out of the receivables balance of UGX.3,858,972,329 disclosed in the statement of financial position and note 19 of the financial statements, a sum of UGX.3,118,027,052 relates to outstanding affiliation fees for various institutions. The amount accrued as a result of collecting only UGX.4,383,850,416 out of UGX.7,501,877,468 billed to the affiliated institutions.

Management indicated that the University was engaging the various institutions with a view of coming up with modalities of settling the debts.

b) Further analysis of receivables revealed that the amount disclosed included uncollected rental income of UGX.58,952,262 of which UGX.29,357,262 relates to the previous year and UGX.29,595,000 for the current year. Accumulation of the receivables may be attributed to lack of a debt management policy. Long outstanding receivables represent idle assets which constrain availability of cash for University activities.

Management indicated that it has written to all the defaulting firms and individuals demanding for clearance of the rent obligations.

I advised management to institute and enforce a debt management policy as this will streamline collection of debts.

- **Un-implemented capital development activities**

A review of the statement of appropriation based on the nature of expenditure revealed that the University capital budget was UGX.5,549,921,000. However, analysis of the cash flow statement indicated that only UGX.2,114,782,916 was realized and incurred on capital items resulting into a variance of UGX.3,435,138,190. Consequently, various key infrastructure such as the University

sewerage system, Chemical engineering laboratory equipment, students study centre and a farm house at the Namasiga site were not undertaken.

Management indicated that budget implementation for capital development projects was affected by a shortfall in Government subvention and re-allocation of non-tax revenue of UGX.4.4billion to cater for settlement of domestic arrears which were not provided for in the budget.

I advised management to liaise with MoFPED to set aside funds for the key infrastructure projects as they are essential for fulfilling the mandate of the University.

### **Other Matter**

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

- **Management of the University revenue generating assets**

Comparison of the Chief Government Valuer's report on management of the University's revenue generating Assets of December 2015 with the current University policies regarding the Assets management revealed the following;

- a) 14 private businesses were found operating within the University without valid tenancy agreements or Memoranda of understanding contrary to the Chief government Valuer's recommendation. As a result, tenants were billed a total sum of UGX.39,003,600 instead of a minimum of UGX.109,706,400 approved by the Chief government Valuer resulting into a variance of UGX.70,762,800.
- b) Staff occupying 73 university houses were billed UGX.173,880,000 using the old rates instead of UGX.295,920,000 using the minimum rate approved by the chief government Valuer. Use of the old rates denied the University rental income of UGX.122,040,000.
- c) Paragraph 19.2.1 of Kyambogo University human resource manual 2014 states that the responsibility for allocation of University houses rests with the housing allocation committee. Audit however noted that 10 individuals occupied the University houses

without approval of the housing allocation committee and no rental fees were paid to the University for 3 houses namely; Number 41 Mackay Road, 8/69 Sempala road and 5 White House Rise resulting into a financial loss of UGX 25,200,000.

The above anomalies were attributed to absence of policies or guidelines for administering the revenue generating assets owned by the University despite recommendation of the Chief government Valuer.

In response, management indicated that the rental rates recommended by the Chief Government Valuer are scheduled to be approved by the University Council before full implementation.

I advised the Accounting officer to prioritize approval of the rental rates recommended by the Chief government Valuer to enable realization of revenue that would support operations of the University.

- **Illegal Occupancy of University Land**

A review of the consultant's report that was approved by the Chief government Valuer in December 2015 revealed that the University land totaling 8.0274 acres with a market value of UGX.5,470,000,000 in 4 areas of Kasigiri, Piggery, Kabaka's gate and Airport village had been illegally occupied. The developments there on were valued at UGX.550,000,000. The report further indicated that all the occupants claim to be rightful owners of the land having stayed on the land for over 12 years.

It was recommended that compensations should be limited to developments on the land and not the land itself as its value is high and would be too costly for the University.

Audit however noted that the consultant's report had not been discussed by council and as a result, the recommendations there in have not been implemented.

Failure to implement the consultant's recommendations has resulted into continued illegal occupation of University land denying it an opportunity to plan and make

development on it. Besides, the value of land appreciates yearly implying that in future it's likely to be costly for the University to resettle the squatters.

In response, management explained that there was an ongoing court case regarding the said land and the outcome would determine the next course of action. Management further indicated that the Council is considering the option of engaging the illegal occupants into negotiation.

I await the outcome of management's actions in the recovery of the University land.

- **Lack of distance learning student fees registers**

Paragraph 4.09 (1) of the Kyambogo University Financial Management Manual, 2014 requires all students to register with the office of the academic registrar every semester on satisfactory confirmation of payment of all University fees by the University bursar.

A review of the distance learning operations revealed that Kyambogo University offers off-campus courses classified as diploma in primary education and diploma in special needs education, through face to face sessions conducted at 14 Primary Teachers Colleges with a total of 3,700 students across the country.

It was however noted that the students under these two programs were not included on the University management information system in form of students fees registers as required by the financial management manual. Instead, information on collections was manually generated by the staff of the external centers from student's deposits made on the designated bank account. This was attributed to absence of online services at the study centres where it becomes hard to get information as transactions occur.

Lack of student's registers hinders efficient follow up of student transactions and may result into students sitting for exams without adequately fulfilling fees requirements.

The accounting officer indicated that the University had conducted a survey in the established centres and documented the required needs which include; Information Technology infrastructure, capacity development and other facilities which will be implemented in the financial year 2018/19.

I advised management to expedite the process of connecting the learning centres to the University information management system. In the meantime, the information obtained manually from the centres should regularly be updated on the system.

### **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 University.

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 University's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the University's 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 University'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 University'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 University 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**

11<sup>th</sup> December 2017