OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF MAKERERE UNIVERSITY BUSINESS SCHOOL FOR THE FINANCIAL YEAR ENDING 30TH JUNE 2017

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REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MAKERERE UNIVERSITY BUSINESS SCHOOL FOR THE FINANCIAL YEAR ENDING 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Makerere University Business School 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 44.

In my opinion, the financial statements of Makerere University Business School 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.

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 School 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 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 the school had accumulated payables of UGX.6,450,597,500 at the end of the financial year under review. I further observed that included in this amount was UGX.3,946,794,273 which relates to outstanding advance from Uganda Consolidated Fund (UCF).I also noted that the payables have remained high over the period of three years from UGX 5,417,126,329 in 2014/15 to UGX 3,874,450,883 in 2015/16, and UGX 6,450,597,500 in 2016/17.
I further observed that there was no budget provision for settlement of outstanding domestic arrears. Failure to pay creditors may result in costly litigation and freezing of the institutes bank Accounts.

The Accounting Officer explained that accumulation of payables was occasioned by Cash Flow challenges and increased volume of business at the Institute experienced at the time. He further explained that payables were not budgeted for with the understanding that funds received from debtors would be used to settle the payables.

Management was advised to enhance measures of collecting both the receivables and current revenue to settle the existing payables.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the following matters disclosed in the financial statements.

- **Outstanding Receivables**

  Management reported in the Statement of financial position, receivables of UGX.3,481,557,434 having increased from UGX.1,915,991,826 in the prior year, an increase of UGX.1,565,565,608(45%).The accumulation of the receivables implies that funds are held by debtors and this constrains the cash flow position, thereby impairing the school operations.

  In response, management attributed the accumulation of receivables to a policy of allowing partial payments to allow students who are financially constrained access higher education.

Management should follow up and ensure that all receivables are recovered in accordance with the debt management policy.

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.

- **Over payment of gratuity**

  The MUBS Human Resource Manual defines contract gratuity as the terminal benefit an employee on contract will receive upon completion of respective period of service expressed as a percentage of the employee's annual salary. However, a review of gratuity payments revealed that the School calculated and paid gratuity on responsibility and top up allowances resulting in an overpayment of UGX.192,365,883. The practice has an effect of financially constraining the School.

  The Accounting Officer explained that gratuity was calculated on both the salary and top up allowances as stipulated in individual appointment letters.

  Management should ensure that staff gratuity is computed as guided by the Human Resource Manual and any excess payments be recovered

- **Investments without ownership documents**

  Makerere University Business School carried out major works at its Jinja-Narambhai campus at a total contract sum of UGX.679,152,591. I however observed that the land and buildings belong to Jinja- Municipal Council and are currently allocated to Narambhai Primary School.

  There is a risk of loss of the cash invested without ownership documents.

  The Accounting Officer stated in his response that Jinja Municipal Council officially communicated its acceptance of the Business School's request to occupy the premises and this informed the decision to invest the funds.

Management is advised to follow up the matter and obtain legal land ownership documents as these would properly safeguard the investment.

- **Encroachment on school land**

  The School owns land in Kireka measuring approximately 0.906 hectares. This land was compensated to MUBS by Uganda Land Commission (ULC) following an out of court settlement for the loss of part of the School land at Bugolobi, which the Commission illegally allocated to private developers. However, I established that while MUBS was provided with the land title, it has never taken full control of the land as part of it is occupied by squatters while the other part is in a swamp. I further established that management's proposal to be provided with alternative land which is encumbrance free has not yielded any results.

  Management is advised to liaise with the relevant stakeholders to resolve the matter without further delay.

- **Construction without KCCA permission**

  Section 33(1) of the Physical Planning Act, 2010 states that, a person shall not carry out a development within a planning area without obtaining development permission from a physical planning committee. I however observed that the School is carrying out developments valued at UGX.4,538,480,646 without obtaining the permit of commencement of works from Kampala Capital City Authority Physical Planning committee. Failure to comply with the physical planning Act is an offence and may attract fines and penalties.

  In response, management stated that the necessary drawings had been submitted to KCCA and the School is awaiting approvals as required by the Act.

  Management should follow up and obtain the necessary permission without further delay.

- **Funds not accounted for**

  Regulation 33(4) of the Public Financial Management Regulation, 2016 requires a payment voucher to be backed by necessary supporting documents. However, a sum of UGX.79, 256,637 paid out for various activities lacked supporting documents at the time of audit. Unsupported payments and delayed accountability may result in loss of public funds and/or falsification of documents.

  Whereas the Accounting Officer stated that the funds had been accounted for, verification confirmed the stated sum as outstanding. Management is advised to ensure that the outstanding amount is accounted for or else recover the funds from the concerned staff.

- **Payment of VAT on Non- Tax Invoices**

  Section 29 (1) of the Value Added Tax Act, 2011 states that a taxable person making a taxable supply to any other person shall provide that other person, at the time of supply with an original tax invoice for the supply. I however noted that VAT totalling to UGX.74,439,732 was paid to suppliers whose contract sums were VAT inclusive without submitting respective tax invoices.

  There is a risk of loss of tax income.

  In response, management indicated that in future, they will ensure that suppliers submit tax invoices.

- **Irregular recruitment of staff**

  Section 2.1 of the Human Resource manual gives the university Council authority to approve the staff establishment and all appointments through the Appointments Board. However, during the year under review, the School recruited 68 staff members (22 teaching assistants, 16 administrative staff, and 30 support staff) without evidence of approval by the Appointments board. In addition, there was no evidence to show that the available jobs were advertised, competitively applied for, applicants shortlisted, interviewed and selection carried out in a transparent manner.

The practice could result in employment of incompetent persons thereby affecting the performance of the school.

The Accounting Officer stated in his response that it was the School policy to retain the best students as academic staff and that the school had a transparent staff recruitment process However, evidence justifying the assertion of transparency was not availed for verification.

Management is advised to comply with the existing recruitment guidelines to promote transparency and competitiveness in the staff recruitment process.

- **Sponsored staff without bonding agreements**

  Section 5.5.3 (J, K) of the Manual requires employees granted permission to study long-term academic programs to be bonded. Staff sponsored for PhD programs are expected to be bonded for 4 years, master's program 3 years, while Bachelors, Post graduate Diploma, Diploma and certificate programs are bonded for 2 years. However, the School sponsored staff members for PhD programs at a cost of UGX.825, 200,000, without bonding them. This was attributed to laxity by management to enforce this vital control.

  There is a risk of staff absconding on completion of their studies which will result in loss to the school.

  In response, management stated that students were granted permission to study and the bonding agreements were signed.

  Whereas the Accounting Officer stated in his response that bonding agreements had been signed, they were not readily availed for verification. The Accounting Officer should enforce the bonding agreements.

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 School.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the Public Finance Management Act, 2015, 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 Entity's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Entity'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 Entity'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 Entity'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 Entity 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.

John F.S. Muwanga

AUDITOR GENERAL

16th December, 2017