



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF MINISTRY OF EDUCATION AND SPORTS**

**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 MINISTRY OF EDUCATION AND SPORTS 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 Ministry of Education and Sports, which comprise the Statement of Financial Position as at 30<sup>th</sup> June 2017, the Statement of Financial Performance, 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 12 to 40.

In my opinion, except for the possible effect of the matter described in the Basis of Qualified Opinion section of my report the financial statements of the Ministry of Education and Sports 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**

- **Mischarge of expenditure**

Regulation 16(1) of the Public Finance and Management regulations, 2016 requires an Accounting Officer to request the Minister for approval to vary, within a vote, the amount of money allocated to the vote. However, a review of the of the payment file revealed that a total of UGX.4,640,738,987 was irregularly charged on other budget codes other than those for which the activities related. Charging of the wrong outputs undermines the importance of the budgeting process as well as the intentions of the appropriating authority.

Management indicated that funds of the project activities which delayed start were used to clear some of the outstanding commitments. While on the other hand funds for partitioning of offices at legacy towers were used pay for office rent to avoid accumulating arrears.

I advised the accounting officer to streamline the budgeting process to ensure that sufficient funds are allocated to each expenditure output and when required, seek appropriate approvals for reallocations.

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 Ministry 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 procedure performed, I observed that an amount of UGX.14,870,296,618 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament and consequently, there has been an increase in domestic arrears over the period of three years which makes the trend unsustainable and I further observed that the Ministry budgeted for only UGX.2,868,447,805 out of UGX.16,880,807,630 previous year arrears. As a result UGX.10,992,354,357 for approved budget was used to settle outstanding commitments.

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 Ministry of Finance Planning and Economic Development especially under the development budget.

Management should adhere to commitment control system.

### **Emphasis of Matter**

Without qualifying my opinion further, I draw your attention to the statement of financial performance and the statement of appropriation account based on nature of expenditure;

- **Revenue shortfall**

Section 45 (3) of the Public Finance Management Act 2015 stipulates that an Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a financial year, submitted under section 13 (15) of the Act.

Review of the statements of financial performance and appropriation account based on nature of expenditure revealed that the Ministry received warrants amounting to UGX.214,674,260,584 (80%) out of the UGX.268,819,849,164 in the approved budget resulting into a shortfall of UGX.54,145,588,580.

The variance affected co-funding of donor and Government funded projects by UGX.41,666,023,806, subventions to other Government institutions and private Universities by UGX.5,638,639,796 and transfers to Uganda Teachers Savings Credit Cooperative Union by UGX.1,750,000,000. At output level the short fall affected the implementation of planned activities notable among which were; non- residential buildings; UGX.32,962,895,000, residential buildings; UGX.877,600,000; Machinery and equipment; UGX.806,870,000 and long term consultancy; UGX.1,664,072,000. Non implementation of planned activities hinders service delivery.

Management indicated that the Ministry prepares and submits realistic budget figures, which are however affected by the cuts in quarterly releases by Ministry of Finance Planning Economic Development (MoFPED).

Management is advised to continue liaising with MoFPED as well as other stake holders in the Education sector to realize the necessary funding.

### **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:

- **Non deduction of withholding tax from Suppliers**

Section 119 (1) of the Income Tax Act, 1997, requires Government institutions paying amounts exceeding one million shillings to a person for a supply of goods or for supply of services to withhold tax on the gross amount of the payment.

During the audit, it was found that the Ministry made taxable payments worth UGX.2,247,725,793 to suppliers however, withholding tax (at 6%) amounting to UGX.134,863,547 was not deducted from payments contrary to the provisions of the Act.

This led to a loss of tax revenue of UGX.134,863,547 to Government which ultimately affects delivery of government services to the public.

In response management stated that recoveries would be made from subsequent certificates.

Management is advised to expedite the recovery process and should always ensure compliance with the provisions of the Income tax Act.

- **Irregular payment of VAT to a consultant**

The ministry entered into a contract with a Consultant vide contract number MOES/SRVCS/2014-15/00094 for the development of a road map for review of the Education Policy (1992) at a cost of UGX.342,000,000 inclusive of VAT.

However the Consultant was paid the entire sum of UGX.342,000,000 VAT inclusive without submission of VAT invoices. As a result a total of UGX.61,560,000 in respect of VAT was irregularly paid.

In addition, withholding tax (WHT) of UGX.16,826,400 was not deducted from the payment contrary to Section 119 (1) of the Income Tax Act, 1997 (as amended) which requires the agent to deduct, withhold and remit tax on the gross amount of payments for supplies exceeding UGX.1,000,000. The VAT and the withholding tax (WHT) paid constitute an irregular charge on public funds.

In response management stated that a letter had been written to the Consultant seeking explanation of the matters and that URA would be informed to take the necessary recovery measures.

Management is advised to always comply with the VAT and Income Tax provisions while effecting payments.

- **Funds not accounted for**

Section 24 (f) of the Public Finance Management Regulations 2016 requires an Accounting Officer of a vote to ensure that vouchers and their supporting documents are maintained.

It was however noted that UGX.44,464,954 paid to Ministry staff and a service provider remained unaccounted for at the time of writing this report.

In the absence of supporting documents, I could not confirm whether the funds were put to the intended use.

The Accounting Officer should ensure that the amount involved is adequately accounted for or recovered in accordance with accounting regulations.

- **Non -compliance with the Solicitor General’s guidance**

The Solicitor General, vide letter Ref. No ADM 7/168/01, dated 14<sup>th</sup> September 2015 advised that Micro Finance Service Center Limited (MFSC) transfers the un-disbursed funds amounting to UGX.5 billion to Uganda Teachers Savings and credit Cooperative Union Ltd. The communication also required amendment of the Contract agreement between MOES and MFSC to take into consideration the new government policy directives.

Review of records revealed that at the time of audit, MFSC Ltd had received UGX.9,317,423,500 out of which only UGX.1,390,000,000 was disbursed to the teachers’ SACCOs of Kabale, Soroti, Mbale, Gulu, Arua and Masaka leaving the institution with a balance of UGX.7,927,423,500. No further documentation was provided to confirm that the Solicitor General’s Guidance was complied with. It was further noted that MFSC had not provided accountability and records of service as required by clause GCC30.1 of the contract agreement. Retaining undisbursed funds on the Ministry account for such a long time is a breach of contract and denies the teachers a chance to make use of the funds.

In response management stated that the matter was discussed with the PS/ST, who pledged to intervene in the matter and cause MFSC to return the funds to the Teachers’ SACCO. In his letter referenced MED 100/264/02 dated 25th May, 2017, PS/ST directed the MFSC to honor the decision of Government and release the funds. PS/ST also reiterated the need for MFSC to respond to the Auditor General’s report on the matter for the year 2015/2016. Unfortunately, MFSC has not responded to the directives to-date.

The Ministry also indicated that it had discussed the matter with the Public Accounts Committee of Parliament in July, 2017 who requested for a report on the matter for them to follow up. The outcome of this intervention is awaited.

Management is advised to explore all workable avenues including going back to the Solicitor General for possible legal action against MFSC to ensure enforcement of the agreement.

### **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 Ministry.

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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Ministry'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 Ministry'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 Ministry'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 Ministry 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. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

4<sup>th</sup> December, 2017