

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF MINISTRY OF GENDER, LABOUR AND
SOCIAL DEVELOPMENT FOR THE YEAR ENDED 30TH JUNE 2017**

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UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF MINISTRY OF GENDER, LABOUR AND SOCIAL DEVELOPEMENT FOR THE
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Ministry of Gender, Labour and Social Development, which 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 year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 8 to 37.

In my opinion, the financial statements of the Ministry of Gender, Labour and Social Development 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 comply with Generally Accepted Accounting Principles.

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 Agency 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 an amount of UGX.3,773,656,591 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 from UGX.3,726,312,583 in 2014/15 to UGX.4,624,339,098 in 2015/16 and UGX.8,353,182,841 in 2016/17. This makes the trend unsustainable. The arrears relate to Social benefits to the elderly (SAGE), utilities, Pension, workman's compensation and rent. I further observed that the Ministry had along outstanding payables amounting to UGX 72,487,293 in respect of printing services offered as far back as 2012. 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 accumulation of domestic arrears was due to inadequate budget provisions and the need to implement the 2016/17 planned activities. However, in F/Y 2017/18 UGX 0.184 billion was provided for utilities and gratuity arrears.

I advised the Accounting Officer to liaise with Ministry of Finance, planning and Economic Development to ensure that sufficient budget provisions are made for domestic arrears to enable their eventual settlement.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the following matter presented in the financial statements:

- **Declining revenue performance**

A review of the financial statements revealed a decline in non-tax revenue collections over a period of 3 years from UGX.1,210,566,070 in 2014/15 to UGX.1,178,187,000 in 2015/16 and UGX.986,355,980 in 2016/17. This was attributed to management's failure to institute measures to ensure collection of NTR from all eligible sources. Under collection of revenue hampers availability of funds for the national budget.

Management acknowledged the decline and attributed it to understaffing and inadequate facilitation of the department responsible for NTR collection.

I advised Management to liaise with Ministry of Finance, Planning and Economic Development and set aside resources to enable enforcement of NTR collections from all eligible sources.

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.

- **Uganda Women Entrepreneurship Programme (UWEP) funding gap**

Out of the budgeted UGX.43,000,000,000 for the UWEP programme, the Ministry realized only UGX.24,339,347,328 leading to a short fall of UGX.18,660,652,672 (43%). The shortfall was attributed to budget cuts by Ministry of Finance, Planning and Economic Development. Further analysis revealed that only UGX.12,472,521,393 (51%) of the released funds was disbursed to the implementing districts.

As a result 63 (40%) out of the 157 UWEP implementing districts and Municipalities were not funded. Some of the UWEP areas of focus such as poor communities in Kamuli and Butaleja as well as hard to reach areas like Buvuma were also not funded.

Management explained that the issue of underfunding has always been brought to the attention of Ministry of Finance Planning and Economic Development (MoFPED) and more engagements will be made to ensure full and timely release of the approved budget.

I await results of management's engagement with MoFPED.

- **Delayed release of Funds**

As at 31st March, 2017 (9 months), the Ministry had received only UGX.58,676,632,091 (33%) out of its approved budget of UGX.178,331,741,000 thereby leaving UGX.119,655,108,909 (67%) to be released in the last (fourth) quarter of the financial year. This was attributed to delayed release of funds by Ministry of Finance, Planning and Economic Development (MoFPED).

Delayed release of funds negatively affects the implementation of planned activities and hampers achievement of the Ministry objectives.

Management explained that the issue of delayed releases of funds had been brought to the attention of MoFPED and more engagements were to be made to ensure full and timely release of the approved budget.

I await results of Management's action in this regard.

- **Staffing Gaps**

Out of the approved establishment of 623 positions, only 277 positions were filled resulting into a staffing gap of 346 positions (56%). The key vacant positions include Commissioners for Gender and women affairs; Youth and children affairs; Labour and industrial relations and productivity; Principal Accountant and Principal Inspectors among others. Lack of key staff in the Ministry could affect the performance and overall achievement of the Ministry's goals and objectives. The existing members of staff are also overworked leading to staff demotivation and probable staff turnover.

Management explained that submissions had been made to the Ministry of Public Service and the Public Service Commission to fill the vacant positions and a response was awaited.

I advised Management to follow up with the Ministry of Public Service and the Public Service Commission to ensure that the vacant positions are filled.

- **Inadequate funding of the Youth Livelihood Programme (YLP)**

Out of the initial programme budget of UGX.265 billion over the five years period only UGX 114,924,773,523 had been released to the programme over the four year period to 30th June, 2017 resulting into a funding gap of UGX.150,075,226,477 (56.67%). Inadequate funding of the programme may threaten the achievement of the intended programme objectives of improving livelihoods of the poor and un-employed youth.

Management explained that the Ministry had constantly engaged MOFPED to ensure that the YLP Funds are released in line with the initial approved amount for the 5-year period. Management undertakes to engage MoFPED further to improve the releases to the Programme in the subsequent quarters.

I await results of Management's engagement with MoFPED.

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.F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

15th December, 2017