



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
PRIVATISATION & UTILITY SECTOR REFORM PROJECT (OPERATIONS)
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
PURSP	Privatization & Utility Sector Reform Project
ISSAIs	International Standards of Supreme Audit Institutions
MDAs	Ministries, Departments and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
TAI	Treasury Accounting instructions
PFMA	Public Finance Management Act, 2015
IFMS	Integrated Financial Management System
PS-ST	Permanent Secretary /Secretary to Treasury
UGX	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
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FOR THE YEAR ENDED 30TH JUNE, 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of Privatization and Utility Reform Project (Operations) for the year ended 30th June, 2017. These financial statements comprise of the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements present fairly in all material respects the financial position of Privatization and Utility Reform Project (Operations) as at 30th June, 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards and the Public Enterprises Reform and Divestiture (PERD) Act.

Basis of Opinion

I conducted my audit in accordance with International Standards of Auditing (ISAs). 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 organization 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.

- **Outstanding commitments for the year**

Based on the procedure performed, I observed that the entity had outstanding commitments of UGX.4,812,757,000 as at 30th June 2017. Included in this payables figure is a total of UGX.203,282,000 relating to 3 divestiture activities which are not operational in nature and as such should have been included in the Divestiture Accounts. It was also noted that the outstanding commitments alone were more than the total income received during the year. This situation could undermine the budget of the Project if not checked early enough. Besides, accumulation of outstanding commitments could result into

litigation. I advised management to continue liaising with MoFPED to obtain funds to settle the outstanding obligations.

Other Matter

I consider it necessary to communicate the following matter other than those presented or disclosed in the financial statements:

- **Budgeting of Funds for Privatization Unit**

A review of the costed operations work plan for the financial year 2016/2017 indicated that the entity had planned to utilize UGX.11.072bn to implement operational activities. It was observed that the entity received and spent UGX.3.738bn on these. It was however difficult to establish the exact activities these funds were to finance. As at the close of the year, a sum of UGX.113,466,994 had not been utilized but the funds were not remitted to the consolidated fund because budgeting, release of funds, utilization and treatment of unspent balances by the unit was a challenge. The process of approval of the project budgets was also unclear. In absence of a clear guidance on how the unit funds should be budgeted for and approved, there is a risk that the funds are irregularly utilized. I advised management to liaise with MOFPED to streamline the Unit's budgeting and use of operational resources.

Responsibilities of the Directors for the Financial Statements

The Directors are also responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Public Enterprises Reform and Divesture (PERD) Act and International Financial Reporting Standards on Accrual basis of accounting and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

Auditor's 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 the 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 ISAs, I exercise professional judgment and maintain professional skepticism 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 our 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 ability to continue as a going concern. 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 to cease to continue as a going concern.
- 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 Directors 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 Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her 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 the Directors, 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.

Report on other legal requirements

As required by the Public Enterprises Reform and Divesture (PERD) Act and the National Audit Act, 2008, I report to you, based on my audit that;

I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.

- i. In my opinion, proper books of accounts have been kept by the Directors so far, as appears from my examination of those books; and
- ii. The statement of financial position and statement of Support, Revenue and Expenses are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

8th December, 2017

FINANCIAL STATEMENTS