

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT
PROGRAM (USMID) PROJECT FOR THE YEAR ENDED 30TH JUNE 2017 (IDA
CREDIT NO.5223 – UG) IMPLEMENTED UNDER THE MINISTRY OF LANDS,
HOUSING AND URBAN DEVELOPMENT**

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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Municipal Infrastructure Development project, IDA Credit No.5223 - UG which comprise the Statement of Fund balance as at 30th June 2017, Statement of receipts and payments 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 16 to 24.

In my opinion, the financial statements of the Municipal Infrastructure Development project for the year ended 30th June 2017 are prepared in all material respects in accordance with IDA guidelines and the cash basis of accounting as described under Note 2.0 to the financial statements.

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 project/program 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, are of most significance in my audit of the financial statements of the current period.

I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the Summary statement on Budget performance and the summary of fund balance as amplified in the cash book and bank balances in the financial statements;

- **Funding Gap**

A review of the Summary statement on Budget performance revealed that whereas the program budgeted for UGX.124,061,339,158 only UGX.105,820,960,552 was realized, resulting into a funding gap of UGX.18,240,378,606 (14.7%). Under funding negatively impacts on the performance of the project since all the planned activities may not be implemented.

Management explained that the expenditure budget for 2016/17 included UGX.16,754,527,825 which was rolled over from previous years. This leaves a funding gap of UGX.1,485,850,781 that is attributed to normal budget shortfalls and fluctuation in foreign exchange rates between the United States Dollars (USD), Special Drawing Rights (SDR) and Uganda Shillings (UGX).

Management explained that the shortfall arose from normal budget shortfalls and foreign exchange losses due to the fact that the loan agreement was denominated in SDR while the disbursements are made in USD.

I advised management to liaise with the World Bank and Ministry of Finance planning and economic development (MoFPED) with a view of limiting foreign exchange related losses.

- **Under-absorption of Funds by the Project Management Unit**

A review of the fund balance, cash book and bank balances in the financial statements revealed that UGX.275,932,296 and USD.1,338,850 remained un-utilized by the project at the year end.

This could threaten the attainment of the project objective of enhancing the institutional performance of Program Local Governments (LGs) in order to improve urban service delivery. Further, such unutilized funds may attract a service charge of 0.75% per annum.

Management explained that the apparent under absorption of funds was due to activities which were procured, but whose implementation spanned over the financial year 2016/17 such as GIS installation, the consultancy for engineering designs for the Municipal

infrastructure and renovation of the Ministry of Lands headquarters for which a contractor had already been procured.

I advised management to review the progress of the project with the view of fast tracking activities to avoid under-utilization of funds.

Other matter

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

- **Under-absorption of funds by the Municipal Councils (MCs)**

All the 14 Municipal Councils (MCs) failed to utilize or absorb all their Municipal Development Grants (MDG) and Capacity Building Grants. The total un-spent balances at the close of the financial year amounted to UGX.125,626,338,586 and this comprised grants received during the year amounting to UGX.100,626,338,586 and un-spent balances brought forward from the prior year amounting to UGX.25,287,856,752. Notable among the poor performing MCs were Mbarara, Hoima, Fort Portal and Jinja which failed to even utilize funds brought forward from the previous year.

Management attributed the under-absorption of funds to delays in the procurement process; delayed execution of works by some contractors and delayed submission of certificates by contractors after completion of works.

I recommended to the Project management to design strategies to improve absorption of funds by the Municipal Councils. Municipal Councils that fail to utilize previous year funds should not be advanced more funds.

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 Project.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the IDA guidelines and the cash basis of accounting as described under Note 2.0 to the financial statements, 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Project'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 Project'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 Project'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 Project 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

15th December 2017.