

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF UGANDA MANAGEMENT INSTITUTE

FOR THE YEAR ENDED 30TH JUNE 2017

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UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF UGANDA MANAGEMENT INSTITUTE FOR THE
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Uganda Management Institute, 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 36.

In my opinion, the financial statements of the Uganda Management Institute 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 the Financial Reporting Guide, 2008.

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 Institute 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.2,656,582,781 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament and consequently, the level of payables have remained high over the period of three years from UGX.5,535,608,908 in 2014/15 to UGX.4,613,175,575 in 2015/16, and UGX.3,698,558,611 in 2016/17. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.2,656,582,781. 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 attention to the following matters disclosed in the financial statements.

- **Outstanding receivables**

Note 19 of the financial statements indicated that the institute had accumulated receivables amounting to UGX.5,348,458,654 at the close of the financial year under review. Some of the receivables relate to financial years 2014/15 and 2015/16 .The accumulation of receivables was attributed to non-compliance with the credit management policy.

In response management attributed the accumulation of debtors to the Institute admission policy whereby if a participant is registered after paying all the functional fees and 50% of the first semester fees, the student is retained in the system as a debtor until graduation or until expiry of the allowed completion period.

Management is advised to ensure implementation of the debt management policy. Uncollectable debts should be reviewed or written off in accordance with the policy.

- **Unauthorized Excess Expenditure**

Section 4:3:(X & XI) of the Institute's Financial Policies and Procedures Manual 2016 state that Budget virement shall be approved by the Accounting Officer on application from the budget holder and Budget re-allocation shall be approved by the Governing Council. However, the statement of appropriation revealed a total over expenditure of UGX.994, 646,742 which lacked Council approval.

In response management stated that a request for supplementary budget, re-allocations and virements for the expenditures had been presented to the Governing Council for approval. It was however noted that the said authority did not apply to the expenditure in question.

Management is advised to enhance budget discipline and adherence to attendant financial regulations.

Other Matter

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

- **Wasteful Expenditure**

The institute incurred legal costs amounting to UGX.31,048,000 arising from a lost court case. The case arose due to refusal of the institute to allow a student sit examinations despite settling the necessary fees. The expenditure is considered wasteful as it would have been avoided with proper reconciliation of the student's payment records.

In response management stated that the participant deposited the said amounts of money on the Institute Bank Account in Centenary Bank; however the bank did not reflect the deposit on the account. It's the Institute's policy that receipting of revenue is only made after receipt of the daily e-statements from the collection

accounts in the bank. For the above case the submitted e- statement did not include the aforementioned deposit from the student upon reconciliation.

Management is advised to enhance its payment reconciliation procedures as this will save public 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 Institute.

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 Institute's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Agency'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 Agency'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 Institute'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 Institute 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, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

15th December, 2017