



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
DIARY DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF DIARY
DEVELOPMENT AUTHORITY
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 Diary Development Authority for the year ended 30th June 2017. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of Diary Development Authority 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 Statement's section of my report. I am independent of the Authority 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 there was no budget provision for settlement of domestic arrears totaling to UGX.140,944,742 posing a risk of diversion of funds for settling the obligations. This may be as a result of existence of a weak and ineffective internal control system over the control and management of domestic arrears.

The Accounting Officer explained that this was due to budget cuts in the preceding financial year 2015/2016 whereby out of the approved budget of UGX.5.044 billion only UGX.3.9 billion was realised yet management had entered into some obligations in anticipation of the releases.

The Accounting Officer should ensure he/she budgets for arrears where they have been incurred to avoid diversion of funds.

Other Matters

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

- **Failure to collect CESS revenue as per the dairy industry Act 1998 and the Dairy Regulations, 2003**

I noted that the Authority was not levying and collecting CESS on Milk or Milk products contrary to Section 3(e) of the Dairy industry Act, 1998 that empowers it to impose a CESS on producers of processed milk and dairy products as a result of a 2007 presidential directive, but neither was it receiving the due compensation from Ministry of Finance as directed by the same order. I observed that in 2007, the CESS computation on the processing capacities at that time was UGX.1.2 billion and is currently estimated at UGX.8 billion. Failure to collect CESS revenue leads to unfunded priorities which are key in driving the dairy sector.

Management explained that they have engaged Ministry of Finance on the matter with no positive response.

I advised the Accounting Officer to continue following up the matter but also consider engaging the relevant Parliamentary Committee on Agriculture with a view to restating the levy.

- **Failure to collect revenue-UGX.528,891,240**

A review of the DDA revenue ledgers revealed that the Authority failed to collect revenues to the tune of UGX.528,891,240 from house rentals and milk coolers on hire purchase. The tenants were still occupying the Houses and in some cases rental arrears had accumulated for more than one year to a maximum of five years. Failure by

management to recover outstanding receivables may render them unrecoverable and may require writing off thus causing financial loss to government.

I advised the Accounting Officer to undertake more efforts and have the debts collected.

- **Lack of land titles for Milk Collection Centers and other matters of Land**

A review of the DDA land portfolio revealed that the Authority owns 48 properties across the country in form of Milk Collection Centers (MCCS), milk processing plants, national laboratory and residential buildings including the headquarter office. However out of the 48 properties, 31 had no titles, 12 were under process of acquiring the titles and only 5 had titles. The majority of MCCs were non-functional. Lack of land titles exposes the entity to risks of wrangles, litigation or encroachment as evidenced in Entebbe Dairy Training School which is costly and hampers service delivery.

Management explained that they have made some efforts to acquire land titles for DDA properties, the high costs involved notwithstanding. However, the process has been frustrated by some district officials. Some Districts lack fully constituted land Boards.

I advised the Accounting Officer to prioritize and fast track the acquisition of land titles to avoid loss and encroachments of the Authority land.

- **Staffing gaps**

A review of DDA staff structure revealed that out of the approved 140 posts, only 65 were filled, leaving 75 posts vacant (54%). Some of the key posts have been vacant since DDA was created in 2003. Lack of key staff limits the Authority from implementing the mandated activities and creates a heavy workload to the existing staff.

I advised the Accounting Officer to expedite the process of filling the vacancies where funding has been provided and draw the issue to MoFPED for the required additional recruitment funding.

- **Advances to Individual Personal Accounts-UGX.243,991,658**

Sections 227, 228 and 229 of the Treasury Accounting Instructions (TAIs), require that all payments should be made by the Accounting Officer directly to the beneficiaries.

Where this is not convenient, an imprest holder should be appointed by the Accounting Officer with the approval of the Accountant General.

I observed that UGX.243,991,658 was advanced to DDA staff through their personal bank accounts to undertake various Authority activities contrary to the regulations. This practice not only contravenes the procurement law but also exposes the Authority to a risk of unfair prices. Depositing funds on personal accounts also exposes Government funds to risk of loss, since the Authority does not have any control over such funds deposited on personal accounts.

Management has noted the concern and pledged to comply with the relevant sections of TAIs.

I have advised the Accounting Officer to ensure strict adherence to the requirements of the Treasury Accounting Instructions by using only the appointed imprest holders or request for cash withdrawal limit increments from the Permanent Secretary/Secretary to the Treasury to handle the urgent needs.

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 Agency.

The Accounting Officer is also responsible for the preparation of 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 Agency's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Agency, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority's 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 ISSAIs, 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 Authority'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 Authority'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 Accounting Officer 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 Accounting Officer 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 Accounting Officer, 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

KAMPALA

8th December, 2017

APPENDIX 1

Vote Function output	Item Description	Planned Output/Quantity	Actual Output/Quantity	Amount Budgeted (UGX)	Amount Released (UGX)	Audit Remarks
Project 1268-dairy Market access and value addition 015577-purchase of specialized machinery and equipment	312202-machinery and equipment	1unit (With various components) of processing plants	1 Unit (with various components)	601,635,000	601,635,000	LCs still in BOU as importation is on going
015576- purchase of office and ICT equipment including software	221008 computer supply and information technology(IT)	Purchase of computers for regional offices, diary training school and accessories	Purchase of computers for regional offices, diary training school and accessories was procured	21,935,418	21,935,418	For Diary training school in Entebbe not yet installed due to renovation and painting work still going on
015578- Purchase of office and residential furniture and fittings	312203- Furniture and fixtures	Purchase of chairs, computer tables curtain blinds and curtains	Purchase of chairs, computer tables, mattress for school, curtain blinds and curtains procured	22,959,386	22,959,386	Chairs and computer tables not yet put in diary training school since its under renovation
015572- Government buildings and administrative infrastructure	312101- Non-residential buildings	Rehabilitation of Soroti milk collection centers; Fencing, electrical works and other general repairs at Entebbe Dairy training School	Rehabilitation of Soroti milk collection center done and completed	527,600,000	462,667,949	Fencing, electrical works and other general repairs at Entebbe Dairy training school not yet completed

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