



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**MINISTRY OF DEFENCE AND VETERAN AFFAIRS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

## **LIST OF ACROYNMS**

APS	Airforce Primary School
ASSS	Airforce Senior Secondary School
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions (INTOSAI)
ISSAIs	International Standards of Supreme Audit Institutions
MOD	Ministry of Defence
MODVA	Ministry of Defence and Veterans Affairs
NHCCL	National Housing and Construction Corporation Limited
UGX	Uganda Shillings
UPDF	Uganda Peoples Defence Forces
UPDAF	Uganda Peoples Defence Air Force
UVAB	Uganda Veterans Assistance Board

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**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the financial statements of the Ministry of Defence and Veteran Affairs for the year ended 30<sup>th</sup> 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 the Ministry of Defence and Veteran Affairs for the year ended 30<sup>th</sup> 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 Ministry 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 to be the key audit matters 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 two 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 an amount of UGX 90,765,034,582. 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 two years from UGX.718,433,532,862 to UGX.764,230,132,962 which makes the trend unsustainable and I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.658,191,931,565 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. For example, the government commitment control system was not adhered to.

I advised the Accounting Officer to always make budget provisions for domestic arrears and avoid diverting money to pay domestic arrears not budgeted for.

### **Emphasis of matter**

Without qualifying my opinion further, I draw attention to the following matters described in notes 7 and 19 of the financial statements, and also in paragraph 8.3 of my report:

- **Irregular payment of rental dues**

During the year, a sum of UGX.2,202,257,187 was paid to an advocate being rental arrears for National Housing and Construction Corporation Ltd (NHCC) for the 25 Housing units at Bulime Estate at Entebbe Municipality.

A review of the various correspondences supporting this payment indicated that in 1989 Government of Uganda took a decision to compulsorily take over all properties overlooking the Entebbe Airbase for security reasons. This includes properties owned by National Housing and Construction Corporation (NHCC). At the time of compulsorily take over in 1989, NHCC was 100% owned by Government of Uganda.

His Excellency directed the then Minister of State for Defence to conclude the issue of compensation. Under the laws of Uganda, after compulsorily acquisition, the owner of the property is only entitled to compensation and ownership taken over by Government. As such from the time of taking over the Bulime houses by Ministry of Defence, these properties became properties of the Ministry of Defence and NHCC was only entitled to compensation of their interest but not rental income. The payment of UGX.2,202,257,187 being rental expenditure is therefore considered irregular.

I brought this matter to the attention of Parliament in my report for the year ended 30<sup>th</sup> June 2015 in which I advised the Ministry to cross check records before committing government funds.

I could not justify why the Ministry did not seek legal advice from the Attorney General on the matter before committing government funds. Paying rental arrears on properties which have been compulsorily taken over is irregular and a loss of government resources.

Management explained that the payment of UGX.2,202,257,187 to a firm of Advocates was made in settlement of outstanding rental arrears owed to NHCCL.

Although there was a declaration that Government takes over all properties overlooking the Airbase for security purposes, the Housing Units at Bulime were not taken over and ownership by Government was not concluded. As such this property was taken over by NHCCL at the time of incorporation in 2005. The land titles for the 25 units were handed over to NHCCL by National Housing and Construction Corporation among other assets as provided in the Articles and Memorandum of Association of the NHCCL the new company.

Ministry of Defence who were now in occupation continued paying rent to NHCCL until 1995 when they stopped due to inadequate funds. This caused accumulation of rental arrears to the tune of UGX.2,202,267,187 which the Ministry was obliged to pay.

Upon demand for payments of the arrears above MODVA challenged NHCCL to prove ownership of the property and this was done by presentation of the 25 land titles registered in the names of NHCCL. Therefore, payment was made on the basis of the above findings. The advice of the Auditor General was taken and the Attorney General was consulted on this matter and response is awaited.

I advised the Accounting Officer to continue following up the matter with the Attorney General before committing government again.

- **Un disclosed Non Tax Revenue**

Included in the Statement of Financial Performance is NTR collected by the Ministry amounting to UGX.1,421,780,000. Detailed analysis of this amount indicated that the Ministry collected rent from NIRA of UGX.952,000,000, MTN Marts UGX.162,000,000 and from hire of Kololo Independence grounds and sale of bid documents UGX.258,820,000. However, I was not availed with a Memorandum of Understanding between Airtel and Ministry to confirm the amounts due from Airtel. I noted that there has been no revenue collected and disclosed from Airtel masks.

There is a risk of understating Non Tax Revenue collected and disclosed in the financial statements.

Management explained that Airtel has not signed an MoU with the Ministry despite several reminders. A final reminder has been made to the company, in case of non-compliance by the company, more stringent measures will be applied.

I advised the Accounting Officer to follow up the matter with Airtel and have the memorandum signed and ensure that the expected revenue is collected and properly accounted for.

### **Other Matters**

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

- **Institutional arrangements of Ministry of Defence and Veterans Affairs**

In 2016 cabinet took a decision to create a Directorate responsible for Veteran Affairs under the Ministry of Defence. The Minister of State in charge of Veteran Affairs was appointed. The Uganda Veterans Assistance Board (UVAB) created by an Act of parliament was in existence under UVAB Act Cap 212 of 1992. The Board was mandated to ensure that military veterans and their dependents are sustainably reintegrated in civilian life in social and economic terms.

I noted that there is a legal institutional framework on how the two entities would relate in handling veteran affairs. However UVAB is still operating under the Office of the Prime Minister since enactment and has had a fixed budget of UGX.500,000,000 that has not been sufficient to cater for the operations of the Board to deliver on its mandate. During the last three years, only UGX.1.5 bn was released to enable UVAB operate. The continued operation of the MODVA without repealing the Uganda Assistance Board Act may contravene the law leading to duplication of roles and waste of public resources.

Management explained that they are in the process of amending the UPDF Act to mainstream the activities of the Veterans Assistance board roles into the Ministry.

I advised the Accounting Officer to fast track the review of the UPDF Act to ensure that the operations of the Veterans Affairs are streamlined to enable them operate in over 115 districts across the country.

- **Land Issues**

The Ministry owns land across the country however; the land is not properly being managed. I noted that there are incidences of undeveloped land, delays in acquiring titles, allocation of land without proper guidance, land disputes and encroachment among others. It appears that there are no effective established structures and framework to manage land related matters as noted below;

- **Delays in acquiring Land Tittles**

It was established that MOD owns different plots of land in different parts of the country many of them have been surveyed and matters forwarded to Uganda Land Commission for title processing. However, titles have not been obtained for those properties.

Land in Entebbe which is comprised of Bulime, Bazarabusa lane, Kitasa, Combe and Cercular Road was all surveyed by the Ministry in 1998. However, to date Uganda Land Commission has failed to process the land title in the names of Ministry of Defence. The Ministry risks losing this prime land to land grabbers if no action is taken.

Management explained that the Ministry has engaged Uganda Land Commission to ensure expeditious handling of submissions for titling army Land. In a letter dated 7<sup>th</sup> November, 2017 the Chairman ULC undertook to follow up all the previous submissions to ensure that the titles are processed accordingly.

I advised the Accounting Officer to follow up this issue with Uganda Land Commission and ensure that the titles are issued in MOD names.

- **Land occupied by MOD with claims from individuals not yet settled**

It was established that UPDF has occupied 9 pieces of land that the entity does not own in different parts of the country with uncompensated claims from original owners. There were no clear reasons given for not compensating the owners when their land has been taken over under compulsory acquisition. Besides, the amount to be compensated could not be established. There is a risk that the claimant may go to court of law for redress.

Management explained that there are pieces of land which UPDF has compulsorily occupied for purposes of national security and individual owners have not been compensated. The reason for delayed compensation is the inadequate budget allocations for land compensation by MOFPED.

The Ministry has however received an allocation of UGX.17bn this financial year 2017/18 to partly settle this obligation. Payment processing is underway. It should however be noted that this allocation is not adequate to fully settle the overall obligation of UGX.72bn. Efforts are underway to continue engaging MOFPED for more funding for this purpose.

I advised the Accounting Officer to value the land, budget and compensate the land owners to avoid future litigation costs.

➤ **Undeveloped land**

It was established that the Ministry allocated some part of its land to private developers to set up industries and other facilities intended to benefit Ugandans. The land allocated includes 8 acres at Lunyo and 50 acres in Mubende. I was not availed with any document signed by the Ministry to establish under what arrangements this land was allocated. By the time of writing this report in November 2017, there were no development activities going on this land. The objective of which the land was allocated may not be achieved.

Management explained that the land in question was allocated to investors on the basis of a Government decision. The process of leasing is ongoing by the Uganda Land Commission.

I advised the Accounting Officer to establish the terms and conditions under which the land was allocated and ensure that it is put to intended purposes. In case of any deviations from the intended purposes the land should revert to the Ministry.

➤ **Lower Katabi Land**

It was established that lower Katabi land where Katabi Hospital is located was subdivided into 5 plots and allocated to private developers by Wakiso District Land Board. An inspection carried out on 27<sup>th</sup> October 2017 confirmed that these plots are within Ministry Land which was surveyed and fenced off. The circumstances under which the 5 plots were allocated, surveyed and titled by private developers could not be established. I was not

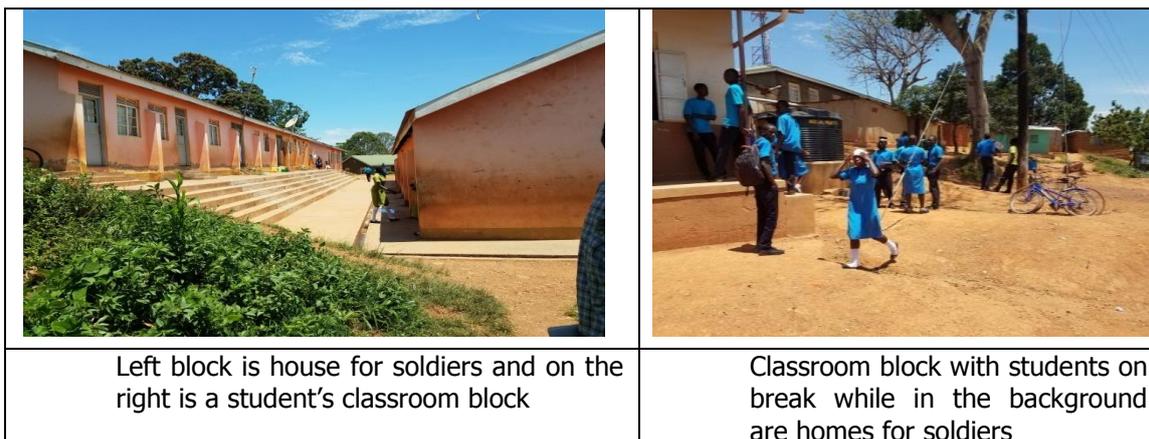
availed with the list of the individuals claiming ownership of the lower Katabi land for independent verification. Unless the matter is addressed, the Ministry is likely to lose the land.

Management explained that the land at Lower Katabi was illegally allocated to individuals by Wakiso District Land Board. There was no survey carried out in the Barracks. Ministry of Defence/Uganda Peoples Defence Air force is currently in occupation of the land in question. The Ministry contested this illegality and requested Uganda Police to investigate the matter. A report is awaited.

I advised the Accounting Officer to investigate the allocation of this land by Wakiso District Land Board with the view of cancelling these private titles.

- **Reallocation of Air Force Senior Secondary School (ASSS) Katabi**

It was established that ASSS is still located within Katabi Barracks with classrooms mixed with soldiers' residences. The school is a mixed school with students especially girls being exposed to higher risks within the barracks. The School also has no fence.



Sometime in 2011 the Ministry of Education had condemned this school. The Board of Governors of the school came up with a proposal to swap ASSS with Air force Primary School and all parties were informed. All drawings were made to relocate ASSS to APS. I noted that the Ministry decided to abandon this arrangement without justification. Failure to reallocate exposes the children to abuse by soldiers.

Management explained that the Ministry of Education and sports gave a grant of classrooms, laboratory and latrines which were put up at a site near the Primary school. Additional developments will be undertaken once funding is identified.

I advised the Accounting Officer to relocate the schools as per the advice from the Ministry of Education to avoid eventual risks.

- **Construction of Nakasongola Airforce Flats Project**

It was established that Ministry embarked on the renovation and completion of 2 block flats in Nakasongola to accommodate air force personnel and students. A total of UGX.1,075,000,000 was paid during the financial year 2016/17 in relation to the works. An inspections carried out on 24<sup>th</sup> October 2017 confirmed that construction works had stalled while the flats were still incomplete. Refer to the picture below. The UPDAF (Air force Account) indicated that the closing balance on the account was UGX.410,726,481. This included UGX.200,000,000 that was earlier on transferred by the Ministry for works on the flats. I could not establish why the works had stalled when the Air Force had funds on the account. There is a risk that funds will be diverted before the project is completed.



Management explained that the overall work progress is 74% and the expected completion time is August 2018.

I advised Accounting Officer Management should follow up the construction works and ensure that work is completed. This is aimed at minimising costs that may arise due to delays.

- **Under funding of deme repair Workshop in Magamaga**

DEME Repair workshop in Magamaga is responsible for the repairing of all military vehicles across the country. It was established that before the year 2005, the workshop was running on an annual budget of UGX.3.4 billion meant to repair an estimated number of 600 vehicles. In the year 2005, the budget was further cut to UGX.2.46 billion and this has been maintained to date.

An inspection carried out at the workshop on 25<sup>th</sup> October 2017 revealed that the total number of fleets for repair has double ever since from 600 to approximately 1,300 fleets. A further increase was noted in the dollar rates from an average of \$.1800 to \$.3800, which has doubled the inflation rates in the country. There has also been a continuous change in technology thus increasing the cost of the spare parts to use in repairing the vehicles.



Inadequate facilitation of the workshop led to increased costs of repairs through referrals to other service providers. A number of vehicles were found lying unattended to in the workshop. This situation is likely to deteriorate the value of the vehicles.

Management explained that under funding of the workshop is not unique to this facility, this is as a result of the overall critical underfunding to MODVA yet the demands have steadily increased. Efforts have been made to purchase new vehicles in UPDF, therefore reducing the cost of repairs. The hard to maintain vehicles are continually being boarded off on a yearly basis.

I advised the Accounting Officer to source for more funding from Ministry of Finance, Planning and Economic Development and improve on the operations of the workshop with a view of reducing repair costs.

### **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 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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Ministry, 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 Ministry'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 Ministry'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 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 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.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

15<sup>th</sup> December, 2017

**FINANCIAL STATEMENTS**