



THE REPUBLIC OF UGANDA

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

OFFICE OF THE AUDITOR GENERAL
UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
LAW DEVELOPMENT CENTRE
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 the Law Development Centre 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 the Law Development Centre 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 Centre 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.

- **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 an amount of UGX.443,255,705 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. There was an increase of 633% for sundry creditors from UGX.59,758,472 as at 30th June, 2016 to UGX.443,255,705 as at 30th June, 2017. This makes the trend unsustainable. I further observed that there was no budget provision in the financial year 2016/17 for settlement of domestic arrears totaling to UGX.59,758,472 incurred as at 30th June, 2016 posing a risk of diversion of funds for settling the obligations.

The continued growth in arrears implies that the Accounting Officer has not adhered to the commitment control system of government that is meant to stop entities from committing government beyond the level of availed resources.

The Accounting Officer explained the creditors arose because of the failure by Ministry of Finance, Planning and Economic Development to release all funds allocated to LDC for financial year 2016/2017 and also garnishing of LDC funds by a law firm.

I advised the Accounting Officer to always endeavour to settle bills timely.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter described in note 19 of the financial statements.

- **Trade Debtors/Receivables - UGX.258,934,000**

LDC had outstanding debtors at close of the financial year totalling to UGX.258,934,000 that are tied up in uncollected fees. Last financial year debts from fees unpaid amounted to UGX.208,017,900. Some of the students had sat exams before clearing the outstanding fees. There is a risk that the entity may lose funds arising from defaults and bad debts.

Management explained that LDC academic year ends in August of the following financial year. Hence by end of financial year 2016/2017, some students had not yet cleared their course fees but a sum of UGX.228,434,000 has been collected.

I advised the Accounting Officer to ensure 100% recovery of these receivables and a policy be developed where all students pay fees before sitting final exams.

Other Matters

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

- **Budget performance**

Out of the budgeted revenue of UGX.11.8 billion, the entity received UGX.10.8 billion (91.9%) resulting into a shortfall of UGX.0.962 billion (8.1%). I noted that some of the planned outputs were not implemented as indicated in the **appendix 1**. Failure to implement activities denies service to the beneficiary communities and defeats the purpose for which budgeting and budgetary controls are instituted.

Management explained that a number of activities were not implemented as a result of, failure by MOFPED to release all funds, garnishing of LDC funds by a law firm and less number of students who enrolled on the Bar Course than the number budgeted for.

I advised the Accounting Officer to engage the relevant authorities and ensure that budget deficiencies are addressed so that all the allocated funds are released and also ensure full collection of Non Tax Revenue from tuition fees to enable implementation of planned activities.

- **Fees collection account - garnished funds - UGX.1,357,883,885**

LDC collected tuition fees from students to a tune of UGX.4,808,916,703. These funds are banked on a tuition/fees current account at Stanbic Bank Wandegaya Branch.

A review of bank statements relating to this account revealed that there was an inter-bank transfer of UGX.1,357,883,885 to a law firm account. Enquiries with Management revealed that these funds were transferred based on a garnishee order and that the details were reported to the entity lawyer. Coupled with less funds release from Finance, this transfer from the entity NTR account negatively affected the implementation of planned activities.

Management explained that after the funds had been transferred management filed a civil case against an individual over land that was acquired for LDC by Government, and it was the responsibility of government (Attorney General) to compensate the defendant, not LDC. This case is still before the Court.

I advised the Accounting Officer to ensure that the funds are recovered.

- **Land issues**

LDC owns several pieces of land in Buganda region. A review of the entity ownership of land revealed that following anomalies:-

- **Delayed transfer of land from compensated tenants**

I noted that Plots 221-222 at Kibuga, Kagugube, Makerere were amalgamated into 4 titles, amounting to approximately 12.8 acres. Management got consent from Uganda Land Commission to proceed with the amalgamation after 5 squatters on the said land were compensated and vacated. However, I noted that at the time of writing this report, processing of the deed prints for the 4 land titles with Entebbe Land Survey and

Mapping office had not been concluded. Delayed transfer of the plots to the LDC or land Commission could lead to encroachment and loss of the land.

Management explained that the process of amalgamation of LDC certificate of titles is about to be completed. This process is being handled by Advocates and Solicitors in conjunction with Uganda Land Commission.

I advised the Accounting Officer to expedite the process of acquiring the land titles for all the Centre land.

➤ **Plots under mortgage: 451 and 481**

These plots are registered in 2 individual names and the land is under Mailo tenure system and mortgaged with Post Bank U Ltd and Barclays Bank Ltd respectively. Plot 451 is currently occupied by LDC Court but the legality of the mortgage is questionable. Management has not yet taken action on this matter. Possession of land without certificate of ownership could lead to litigation by the original owner.

Management explained that LDC has managed to have the said plots and property thereto released from attachment by a consent order.

I advised the Accounting Officer to expedite the process of settling the matter with Post Bank the mortgager and the mailo ownership to avoid litigation.

➤ **Plots 247 and 248 pending replacement of land titles**

The above plots did not appear on the status of land update given by the Manager, Administration. I was therefore unable to confirm whether these two plots fall among those that are due for amalgamation into 4 titles. There is a risk of loss of the Centre land under the circumstances.

Management explained that the process of amalgamation of LDC certificate of titles is about to be completed.

I advised the Accounting Officer to ensure that the plots are part of the land that is being titled.

➤ **Land at Bukoto, Sabaadu, Kyadondo, Mengo**

Land boundary survey was conducted for land comprised in Kyadondo Mailo Register Vol.1693 Folio 33, Head title 1538, folio 1 situated at Bukoto measuring 2 acres, and Kyadondo Mailo Register Vol.1537 Folio 25 Head title 933 folio 4 Plot 39 situated at Bukoto measuring 2 acres. However valuation of the small houses located on the land was not done and the house owners (squatters) could not vacate the land without compensation. If Management does not compensate the squatters in time, the compensation amounts may increase in future, especially if these squatters go ahead and undertake constructions and other investments on the land. Non valuation of small houses for squatters for compensation could lead to increased cash of resettlement in future.

Management explained that the boundary opening was concluded, awaiting valuation report from the Chief Government Valuer. All squatters are willing to vacate the land.

I advised the Accounting Officer to expedite the process of valuing and acquiring the land titles for all the Centre land pieces.

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 LDC

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 Centre's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Centre, 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 Centre'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 Centre'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 Centre'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 Centre 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

22nd December, 2017

FINANCIAL STATEMENTS