



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**MINISTRY OF LOCAL GOVERNMENT**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

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

## TABLE OF CONTENTS

LIST OF ACRONYMS.....	2
Opinion .....	3
Basis for Qualified Opinion.....	3
Key Audit Matters .....	4
Other Matters .....	5
Responsibilities of the Accounting Officer for the Financial Statements .....	7
Auditor’s Responsibilities for the Audit of the Financial Statements.....	8

## **LIST OF ACRONYMS**

<b>CAIIP</b>	<b>Community Agricultural infrastructure improvement Programme</b>
<b>GOU</b>	Government of Uganda
<b>IFMS</b>	Integrated Financial Management System
<b>MATIP</b>	Market Trade Improvement Programme
<b>MOLG</b>	Ministry Of Local Government
<b>MOFPED</b>	Ministry of Finance Planning and Economic Development
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NSSF</b>	National Social Security Fund
<b>PAYE</b>	Pay As You Earn
<b>PPDA</b>	Public Procurement and Disposal of Assets
<b>PST</b>	Project Technical Team
<b>TAI</b>	Treasury Accounting Instructions
<b>TSSA</b>	Treasury Single Sub-Account
<b>UGX</b>	Uganda Shillings
<b>URA</b>	Uganda Revenue Authority
<b>WHT</b>	Withholding Tax
<b>PFMA</b>	Public Finance Management Act, 2015

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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 Local Government 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, except for the effects on the matters described in the Basis for Qualified Opinion, the financial statements of the Ministry of Local Government 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 for Qualified Opinion**

- **Mischarge of Expenditure**

The Ministry charged wrong expenditure codes to a tune of UGX.594,547,000. This constituted 3% of total actual expenditure for the Ministry. Mischarges undermine the importance of the budgeting process as well as the intentions of the appropriating authority and lead to misleading reporting.

Management explained that the mischarge is highly regretted and the Ministry will ensure that the budgeting process is streamlined and budget controls adhered to.

I advised the Accounting officer to expedite the streamlining of the budget process to ensure that sufficient funds are allocated to each account and budget controls are fully adhered to such as seeking authority for any reallocations.

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. In addition to the matters described in the basis for qualified opinion, I have determined the matter described below to be the key audit matters communicated in my report;

- **Outstanding 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 30<sup>th</sup> June 2017.

Consequently, domestic arrears were considered a key audit matter which needed to be investigated to establish the trend, the underlying factors and thereby make recommendations. During audit planning, I majorly focused on domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures; a trend analysis over a period of three years, review of the budget and commitment control procedures and accounting treatment for the domestic arrears. I also engaged the accounting officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that domestic arrears amounting to UGX.42,415,407,684 arising from trade payables, VAT arrears, utility arrears and rent arrears remained outstanding at the close of the Financial Year. VAT arrears from projects under the Ministry amounting to UGX. 36,082,538,426 account for 85% of the total domestic arrears.

I observed that an amount of UGX.4,392,250,972 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. There has been an increase in domestic arrears over the period of three years from UGX.26,711,424 in 2014/15 to UGX.31,591,315,454 in 2015/16 and to UGX.42,415,407,684 in the 2016/17. This makes the trend unsustainable. I further observed that there was no budget provision for settlement of domestic arrears totalling to UGX.4,392,250,972 posing a risk of diversion of funds for settling the obligations.

Accruing domestic arrears without clearing previous domestic arrears is a violation of the law and may lead to nugatory expenditure in form of litigation costs in case suppliers sue the Ministry for delayed payments. For instance the Ministry incurred UGX.359.6m as interest charges arising from delays in settlement of certificates of completed work for the construction of Gulu market under MATIP project to the contractor. According to Management, the increase in domestic arrears was largely due to underfunding by Government.

I advised Management to continue liaising with MoFPED in order to obtain funds to settle the outstanding obligations.

### **Other Matters**

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

- **Diversion of project funds**

UGX.2.4bn out of a total of UGX.4.6bn released as GOU counterpart funding from Treasury to cater for taxes and other projects' programme costs under the Ministry was diverted to pay tax liabilities of closed projects and other Ministry activities. Diversion of funds has negative impact on the successful implementation of project activities and affects the overall project objectives.

Management explained that part of the funds related to the closed projects of CAIIP1 and DLSP which no longer had IFMS Codes on which the funds would be put while

diverted funds related to payments made to clear contractors' obligations that were threatening for litigation and demanded accumulated interest as a result of delayed payments.

I advised the Accounting officer to ensure that GOU counterpart funds are transferred to the respective project accounts in order to have project activities implemented.

- **Nugatory Expenditure**

Good practice requires Accounting Officers to reduce cases of apparent waste. However, I noted that the ministry incurred a total of UGX.359,647,006 in respect of interest payments due to delayed payments to contractors as shown below;

**Table summarizing interest payments due to delayed payments**

<b>Invoice Number</b>	<b>Description</b>	<b>Payment Date</b>	<b>Distribution Amount - UGX</b>	<b>Supplier</b>
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	196,513,561	Dott Services Limited
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	99,797,461	Dott Services Limited
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	35,372,441	Dott Services Limited
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	17,963,543	Dott Services Limited
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	8,474,576	Dott Services Limited
<b>R038/Aug-2016</b>	Part accumulated interest on contract constructing Gulu Main Market under MATIP 1.D038/Aug-2016	26-Aug-16	1,525,424	Dott Services Limited
	<b>TOTAL</b>		<b>359,647,006</b>	

The interest charges were in respect of delays in settlement of certificates of completed work for the construction of Gulu market under MATIP project due to M/S Dott Services.

This adversely contributed to the accumulation of tax arrears which in-turn meant that some of the budgeted for VAT payments could not be effected. Such interest payments are nugatory given that they could have been avoided if the ministry

settled the certificates in a timely manner. According to the Accounting officer, the Ministry is always willing to settle its outstanding commitments as they fall but is unable to do so due to the persistent inadequate Government funding.

I advised the Accounting officer to liaise with the Ministry of Finance, Planning and Economic Development so as to obtain funds to settle domestic arrears on time.

- **Budget performance**

I observed that out of the budgeted revenue of UGX.39.8bn, the Ministry received UGX.26.5bn resulting into a shortfall of UGX.13.3bn (33%). However, I noted that some of the planned outputs were not implemented as indicated in **Appendix 1**. Service delivery is hampered and the appropriating authority's objectives are not met.

Management explained that the underperformance was due to underfunding from Government.

I advised the Accounting officer to liaise with MoFPED for additional funding and ensure adequate supervision of the activities being undertaken.

### **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 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 'John F.S. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

15<sup>th</sup> December 2017

**Budget Performance**

<b>Vote function output</b>	<b>Item description</b>	<b>Planned outputs</b>	<b>Amount (UGX) budgeted</b>	<b>Amount released (UGX)</b>	<b>Unachieved outputs</b>	<b>Management response</b>
Programme 09- Urban Administration department  1323 Urban Administration and Development	132301 – Monitoring and Support to service delivery by Urban Councils	Support supervision and monitoring in 41 Municipal Councils and 70 Town Councils carried out.	829,500,000	813,025,000	The Ministry received 98% of the budgeted funds. However, Management did not Monitor and support 8 LGs and 61 TCs.	The funds meant for the 3 urban councils was not released.
Programme 09- Urban Administration department  1323 Urban Administration and Development	132302 – Technical support and training of Urban Councils	96 Urban Councils trained in Urban service delivery	133,200,000	133,200,000	Despite receiving 100% of the budgeted funds, only 54 of Urban councils were not trained	Ministry conducts several special investigations arising from boundary disputes and other administrative conflicts which activities also suffocate some planned activities
Programme 09- Urban Administration department  1323 Urban Administration and Development	132351 – Support to Urban Service Delivery	4 Urban Councils supported in Physical planning	156,000,000	20,000,000	Three town council were not supported.	Ministry conducts several special investigations arising from boundary disputes and other administrative conflicts which activities also suffocate some planned activities
Programme 10- District Inspection	132401 – Inspection	Routine and Periodic	563,000,000	406,702,556	The Ministry received 72% of the budgeted	

Department 1324 Local Government Inspection and Assessment	and Monitoring of LGs.	inspection of 115 districts and 100 sub-counties conducted			funds.However,42 districts and 34 sub-counties were not inspected.	
Programme 10-District Inspection Department  1324 Local Government Inspection and Assessment	132402 – Financial Management and Accountability in LGs Strengthened	60 IFMS sites supported	95,000,000	95,000,000	Despite receiving 100% of the budgeted funds 58 IFMS sites were not supported	
Programme 11-Urban Inspection Department  1324 Local Government Inspection and Assessment	132401 – Inspection and Monitoring of LGs.	Routine inspection and monitoring activities conducted in 41 MCs and 150 TCs.	588,500,000	385,503,890	Despite receiving 66% of the budgeted funds.  Routine inspection and monitoring activities were not conducted in 34 MCs and 138 TCs.	

**FINANCIAL STATEMENTS**