



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KABALE UNIVERSITY
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

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|----------------|----------------------------------------------------------|
| GOU | Government of Uganda |
| INTOSAI | International Organization of Supreme Audit Institutions |
| ISA | International Standards on Auditing |
| MoFPED | Ministry of Finance Planning and Economic Development |
| PFMA | Public Finance Management Act, 2015 |
| MoES | Ministry of Education and Sports |
| TI | Treasury Instructions, 2017 |
| UGX | Uganda Shillings |
| F/Y | Financial Year |
| MDA | Ministry, Department, and other Agencies |
| IESBA | International Ethics Standards Board for Accountants |
| IFMS | Integrated Financial Management System |
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REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KABALE UNIVERSITY
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Kabale University for the year ended 30th June 2018. 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 Kabale University for the year ended 30th June 2018 are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2018.

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 University 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 key audit matters communicated in my report.

- **Implementation of Budget Approved by Parliament**

Section 45 (3) of the Public Finance Management Act, 2015 states that “ An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)” of the said Act. It has been observed over years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

In the overall office wide planning, I assessed risks of inadequate release of funds, and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities.

Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

Review of the IFMS revealed that the University spent only 18,055,445,624 (89.3%) out of UGX.20,224,051,470 Government grants warranted resulting into under absorption of UGX.2,168,605,846 (10.7%)

Under-absorption of warranted funds implies that some planned activities were not implemented.

In response, the Accounting Officer attributed the under absorption of funds to the late release of grants to the University by MoFPED. The University had sought for a Supplementary Budget of UGX.6.7 billion in January 2018 and this was finally approved by Parliament in May 2018, thus leaving the University with a very short time for utilization of the funds

I advised the Accounting Officer to liaise with the Ministry of Finance, Planning and Economic Development to ensure timely release of funds.

- **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.

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.

I noted that although the University's outstanding obligations reduced from UGX.3,705,143,209 reported last year to UGX.2,059,154,568 in the current year, this amount remains quite significant and unless properly managed, could easily grow to unmanageable levels. I also observed that out of the outstanding payables amount of UGX.2,059,154,568, UGX.186,754,404 was incurred during the year.

In response, Management indicated that during the financial year, MoFPED only released UGX.952,638,140 for domestic arrears. The additional UGX.186,754,404 incurred during the financial year under review was attributed to the delay by the MoFPED to release the non-tax revenue which the University had remitted to the consolidated fund.

I advised Management to liaise with MoFPED to provide funds to settle outstanding obligations to avoid litigation and attendant costs.

Other Matter

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

- **Academic Staffing Gaps**

I noted that out of the approved teaching staff establishment of 711 positions, the University only had 154 (22%) permanent academic staff creating a variance of 557 (78%) staff. Among the unfilled posts are key positions of Professors and Associate Professors.

I also noted that 45% of staff are on part-time basis which is above the acceptable benchmark of 35% prescribed by the National Council for Higher Education Quality Assurance Framework.

Management attributed the anomaly to the inadequate wage bill and indicated that attempts to obtain additional resources have not been successful.

Inadequate teaching staff makes it difficult for the University to effectively achieve its mission of provision of quality and relevant education to its students.

I advised the accounting officer to liaise with the Ministry of Finance Planning and Economic Development and other relevant stakeholders to have the wage bill revised appropriately.

- **Inadequate infrastructure**

Regulation 31 of the Universities and other Tertiary Institutions (Institutional Standards) Regulations, 2005 requires every university to provide adequate physical facilities to accommodate its activities; among them lecture rooms/ theatres, library, computer laboratory, auditorium rooms and staff common rooms.

I carried out physical Inspections on the University infrastructure and observed that Kabale University existing infrastructure is inadequate to accommodate the ever increasing students' population. I found out that Lectures are still being conducted in tents and even the existing lecture halls, laboratories and the library have insufficient space.

In the circumstances, suitability of the learning environment is limited.

In response, Management indicated that all the infrastructure development needs at Kabale University have been brought to the attention of Government and that the MoFPED had advised that this could be done in a phased manner. Management added that they are closely following up on the Presidential Pledge of November 2016 of UGX.47 billion for infrastructure development.

I await the outcomes of the various engagements.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 Kabale University.

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, 2018, 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 University's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of Kabale University, and using the Financial Reporting Guide 2018 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the University'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 University'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 University'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 Kabale University 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.

Other Reporting Responsibilities

In accordance with sections 19(1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements that:

Except for the matters raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on the financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Inadequate Budget Allocation For The Library function**

Regulation 4 of the Universities and Other Tertiary Institutions (Institutional Standards) Regulations, 2005 requires the university or tertiary institution to provide and maintain adequate funding to facilitate the updating and purchase of new information materials to maintain growth in the existing and newly developed areas of study. To achieve this purpose, the university or tertiary institution is required set aside at least 10% of the total budget for this purpose as prescribed in the Universities and Other Tertiary Institutions ACT (UOTIA).

It was noted during the review of the approved budget estimates for the financial year 2017/2018 that, there was no separate budget provision for the library.

However, analysis of the budget revealed that only UGX.104,600,000 representing 0.5% of the total budget of UGX.20,767,303,084 was provided for information materials.

Inadequate budget allocation to the library function hinders the update and purchase of new information materials for the University and this limits students' opportunities to access information for extensive study and research.

In response, Management attributed the anomaly to underfunding of the University and indicated that allocation will gradually be enhanced.

I advised Management to engage relevant stakeholders to obtain the necessary funding for the function as prescribed in the UOTIA.



John F.S. Muwanga

AUDITOR GENERAL

20th December, 2018

