



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF WATER & ENVIRONMENT
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL

UGANDA

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LIST OF ACRONYMS

CPA	Certified Public Accountant
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
DEA	Directorate of Environmental Affairs
PPDA	Public Procurement and Disposal of Assets Authority
VAT	Value Added Tax
DWD	Directorate of Water Development
DWRM	Directorate of Water Resources Management
MWE	Ministry of Water and Environment
UNMA	Uganda National Meteorological Authority
NEMA	National Environment Management Authority

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF WATER AND ENVIRONMENT FOR THE
YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Ministry of Water and Environment 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 the Ministry of Water and Environment 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, 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 Ministry of Water and Environment 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**

Due to increasing demands for transparency and accountability from stakeholders, governments are continually challenged to demonstrate better performance and management of public resources. The Public Finance Management Act 2015, Section 13 (1) and (2) requires preparation of a National Budget in consultation with stakeholders. Section 13 (6) requires that the annual budget is consistent with the National Development Plan.

Further, Section 21(1) of the Public Finance Management Act entrusts the Accounting Officers with the responsibility of planning and managing the entity activities as indicated in the policy statement of the votes based on the annual cash flow plan issued by the Secretary to Treasury during budget execution. Budget estimates are based on outputs to be achieved for the financial year and during implementation, effort should be made to achieve the agreed objectives or targets of the entity within the availed resources.

In the overall office wide planning, I assessed risks of diversions of funds due to unauthorised budget, revisions and unrealistic budget estimates, failure to make timely interventions, failure to achieve intended outputs, noncompliance with the laws and regulations that govern the budget process, there are occurrences not provided for in the laws /regulations, activities not provided in NDP and strategic plan, implementation of activities not provided in the budget, strategic plan and NDP, failure to implement planned for activities due to inadequate funding and possible diversion of funds .

Consequently, I developed specific audit procedures which included the confirm that revisions to the budget/ Virements between votes were appropriately authorised, ascertain that there is a Monitoring and Evaluation tool within the entity, review budget monitoring reports and note performance gaps, confirm that action was taken on the recommendations of the monitoring and evaluation reports, compare the planned vote function outputs against the actuals and determine the variances if any and seek management explanation, obtain copy of the budget and compare the budgeted revenue with that actually received, task management to provide explanations for any shortfalls, for any unbudgeted revenue that is received during the year, confirm that a supplementary appropriation was secured before expending the funds.

Based on the procedures performed, I observed that out of UGX 318.819 billion in Central Government Grants released to the entity, funds amounting to UGX 0.774 billion remained unspent at the year end.

Unspent funds imply delayed or non-implementation of planned activities for service delivery. The occurrence of these unspent balances was attributed to late release of funds by Ministry of Finance, Planning and Economic Development, inefficiencies in procurement units and incompetent contractors among others.

I advised the Accounting Officer to review the Ministry's expenditure processes with a view to fast tracking its activities and enhancing its funds absorption.

- **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.

Based on the procedure performed, I observed that that the Ministry did not include a budget provision for settlement of domestic arrears totalling to UGX. 70,762,775,313. Instead, only UGX. 7,470,000,000 in respect of domestic arrears were provided for. However, management explained that the Ministry provided for UGX 70,762,775,313 as Domestic Arrears for the Financial Year 2017/18 in the Ministerial Policy Statement but Ministry of Finance provided for

only 7,470,000,000 in the PBS system and requested the Ministry to prioritize the balance of arrears in the budget of FY 2018/2019. Failure to make the necessary budget provisions may lead to diversion of funds for settling the obligations.

I further observed that arrears totalling to UGX 75,842,713,087 relate to 2016/17 financial year and UGX.47,426,599,272 were incurred during the year. The outstanding arrears amount is still significant, and poses risks of litigation and related costs to the Ministry.

The continuous existence of domestic 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 attributed it to inadequate funding by Government.

I advised the Accounting Officer to ensure sufficient budget provisions are made to cater for settlement of outstanding domestic arrears, and to strictly adhere to the government commitment control system to avoid risk of overcommitting government.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter presented in the financial statements that, in my judgement, is of such importance and fundamental to users' understanding of the financial statements.

- **Collection of NTR**

I observed that the Ministry collected NTR of UGX.826, 315,331 which was not budgeted for. In addition, there were no concerted efforts on planning, budgeting and collection of NTR.

Management explained that the anomaly was occasioned because the Programme Budgeting System (PBS) does not provide for inputting of NTR budget figures, however, they have written to the Ministry of Finance to configure the PBS to enable capture and recording of NTR data including the budget.

Failure to budget for expected revenue affects government planning and makes assessment of performance difficult.

I advised the Accounting Officer to liaise with MoFPED to make a provision on the PBS to enable capture or recording of NTR data, including budgets to ease analysis of performance in revenue collection.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements

- **Nugatory Expenditure**

It was noted that the Ministry delayed to settle invoices for M/S Songea-Satm Ltd thereby resulting in interest charges totalling to UGX 803,111,726 which could have been avoided with good planning and coordination with the relevant stakeholders.

Delayed payment of approved certificates and invoices amounts to breach of contract agreements and may lead to litigation. Besides, the delays constrain the contractors' cash flows, resulting in work stoppages, demobilization and unnecessary project extensions, all of which lead to cost overruns.

Management explained that the Ministry registered shortfalls in releases from Treasury and as a result, it was unable to settle certificates from contractors as they became due.

I advised Management to liaise with MoFPED to ensure timely release of funds to the Ministry, to allow timely settlement of approved certificates and invoices as this will minimise unnecessary nugatory expenditure.

- **Mischarge of Expenditure**

A sum of UGX 432,857,655 was charged on codes other than those for which funds were appropriated leading to mischarge of expenditure contrary to Section 21 (1) of the PFMA, 2015.

I explained to the Accounting Officer that Mischarge of expenditure undermines the intentions of the appropriating authority and is an indication of budgetary indiscipline and/or poor budgeting. This implies that the financial statements are misstated to the extent of the mischarge.

I advised management to streamline the budgeting process and promptly request for Virements of funds as prescribed in the PFMA 2015. Officers responsible for the mischarge may also be sanctioned in accordance with section 79 of the Public Finance Management Act, 2015.

- **Failure to undertake feasibility studies and EIAs**

A Review of the selected procurement files revealed that the Ministry undertook various water construction works (projects) without carrying out feasibility studies and/or environmental impact assessments.

Failure to carry out feasibility studies and environmental impact assessments implies that project risks and the associated benefits were not determined or ascertained beforehand.

Consequently some projects encountered challenges during implementation. For instance, the contractors (Messrs Tashil (U) and AWICO Engineering Co.Ltd) for the extension of the water pipeline from Katete – Kihihi Town Council project valued at UGX 1,226,115,772) in Kanungu District discovered during execution that they required permission to cross the road and Kiruruma Bridge; the road had to be crossed in certain locations where the terrain was hilly with sharp bends making trenching and pipe laying difficult and the Central Business District of Kihihi Town Council was densely populated posing a challenge of trenching for the pipeline through the town Centre.

These challenges could have been avoided if the feasibility studies and environment impact assessments had been carried out before project commencement.

There is a risk of loss of funds due to escalation of costs arising from un-necessary project stoppages and extensions as well as penalties due to Non-compliance with the NEMA Act.

I advised Management to ensure that for future projects, feasibility studies and environment impact assessments are carried out before commitment of public funds.

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 the Ministry of Water and Environment.

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 Entity's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Ministry of Water and Environment, 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 Entity'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 scepticism 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 Commission'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 Commission'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 Uganda Human Rights Commission 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;

- **Inconsistent payment of salaries and pension**

Section (B – a)(7) 2 of the Public Service Standing Orders, 2010 requires salaries to be fixed at annual rates and paid in twelve (12) equal instalments; to be paid correctly, promptly and as a lumpsum in accordance with the approved salary structure for the Public Service. In addition section (L – b) (2) stipulates that a pensionable public officer has a legal right to a pension and the Constitution protects this position.

A review of the Ministry's payments revealed inconsistencies in the payment of salaries and pensions as some officers were not paid salary or pension in certain months of the year under review. For instance, in the month of June 2018, only 279 out of the registered 564 pensioners were paid their monthly pension. Failure to promptly pay salaries and pensions violates the legal and constitutional rights of the staff from the payroll by the Ministry of Public Service

Management attributed the shortcoming to untimely validation of staff and accidental deletions of staff from the payroll by the Ministry of Public Service adding that payment of Pension of all eligible pensioners (564) was processed however, the payment of the 285 pensioners was not effected by Ministry of Finance, Planning and Economic Development. Efforts are being made to pay their arrears.

I advised management to liaise with MoFPED and the Ministry of Public Service to ensure that inconsistent payment of salaries and pension is minimized and staff are timely validated and accidental payroll deletions are avoided as far as it is practically possible.

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

John F.S. Muwanga

AUDITOR GENERAL

14th December 2018

