



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

GOU	Government of Uganda
IEC	Information, Education and Communication
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
NBI	National Data Transmission Backbone
EGI	Electronic Government Information
NITA-U	National Information Technology Authority-Uganda
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
F/Y	Financial Year
MDA	Ministry, Department, and other Agencies

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FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the National Environment Management Authority for the year ended 30th June 2018. These financial statements comprise of the statement of financial position, the statement of financial performance, Statement of changes in equity and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the National Environment Management Authority (NEMA) for the year ended 30th June 2018 are prepared, in all material respects in accordance with International Financial Reporting Standards and the NEMA Financial and Accounting Regulations Manual, 2003.

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 Authority 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.

Based on the procedures performed, I observed that a total of UGX 24,485,386,000 was budgeted to cater for the National Environment Management Authority activities. However, by the close of the financial year 90% of the approved budget i.e. UGX.22,121,000,000 had been received resulted into a budget shortfall of UGX.2,364,386,000 (10%).

Management attributed the shortfall to inadequate releases and/ cash limits issued by the MoFPED and failure by government institutions to clear their obligations with the Authority. In addition, management stated that the Authority has been constantly engaging Ministry of Finance on budget Shortfalls and there has been an improvement on releases compared to the previous financial years. This engagement is going to continue to ensure that all the funds are released as approved.

I await the outcome of management’s engagement with MoFPED.

Emphasis of Matter

I consider it necessary to communicate the following matters which were presented or disclosed in the financial statements:

- **Outstanding Receivables**

Paragraph 5.5.9 of the NEMA Financial and Accounting Regulations manual requires any debt that becomes overdue for more than 30 days to be subjected to debt recovery procedures which include legal notifications, failure of which would lead to litigation by the legal unit of NEMA with a view of recovering the amount due.

A review of the Statement of financial position revealed that the outstanding prior year account receivables reduced from UGX 20,863,895,193 to UGX.15,307,218,000 representing 27% decrease as shown in the Table below:

Receivable beginning of year	20,863,895,193
Invoiced during the year	8,689,525,734
Total	29,553,420,927
Collected – relating to prior year	5,556,677,000
Collected – relating to current year	8,689,525,927
Outstanding Receivables at yearend	15,307,218,000

However, it was noted that the outstanding balance of UGX.15,307,218,000 remained overdue for more than one year contrary to the requirements of the NEMA Financial and Accounting Regulations manual. This was attributed to management failure to institute more stringent measures to recover the funds.

Failure to collect due debts constrains the Authority's cash flows and hampers implementation of planned activities.

Management stated that stringent measures were instituted that resulted in the collection of UGX 14 billion during the year, a reduction by 27% in account receivables as at 30th June 2018 as compared to 30th June 2017. Management will continue with debt recovery measures to ensure that this debt is further reduced.

I await the outcome of management's undertaking to address the matter.

Other Matter

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

- **Environment Levy/ Surcharge on used imports**

Section 88 (2) (b) of the National Environment Act requires that the Funds of the Authority shall consist of disbursements from the Government and all fees charged under

the National Environment Act and shall be deposited with the National Environment Fund (NEF).

Contrary to the above, scrutiny of revenue collections by URA for the period 2006/07 – 2017/18 revealed that a cumulative figure of UGX.750.57billion was collected from environmental related charges such as surcharges on imports of used motor vehicles, Fridges, Televisions, Computers among others without remitting the collections to the NEF. Details are in the Table below.

Revenue collections, 1991/92 to 2016/17	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	T o t a l
-Surcharge on Used Imports (Bn)	10.13	16.03	32.87	38.62	47.76	50.27	61.21	72.89	95.90	136.28	164.61	23.98	750.57

Source: URA website

The practice denies the authority potential revenue for implementation of its mandate and could be attributed to inadequate institutional synergies at national level, support and low commitment to environmental compliance leading to low prioritization and hence inadequate budgeting for Environmental management at both national and local government levels.

Consequently, the Authority does not have the capacity to facilitate monitoring of the after-effects of use of imported second hand items, restoration of the environment; cleaning/clearing the environment of such items and eventual destruction after their use. Also noted was that due to funding constraints, the Authority is battling with low capacity of local governments and the Lead Agencies in undertaking environment management. During the year under review, the Authority had a funding gap of UGX.29 billion.

The Accounting Officer explained that NEMA shall continue to dialogue and pursue the matter with all the relevant stakeholders.

I await the outcome of management's undertaking to address the matter.

- **Inadequate funding to Local Governments for environmental management**

Sections 17 (1&2b) & 18 (2a) of the NEMA Act, 1995 require the authority to prepare and implement a National Environment Action Plan which takes into account district plans which in turn should be in conformity with the national environment action plan.

Contrary to the above requirement, it was noted that whereas the plans were prepared, the Authority and the Districts were not adequately funded to facilitate implementation of the environment action plans as prescribed by the law. As a result, local governments and the Lead Agencies in environment management are faced with capacity challenges in terms of understaffing and lack of tools for environment management.

Inadequate funding to the Authority and LGs budget may lead to failure to implement the Authority's mandate and/or achieve its Goals and objectives.

The Accounting Officer explained that management engaged the Committee of Parliament on Natural Resources to increase funding to Local Governments for environment management to UGX.14.5 billion but these funds were not provided. Meanwhile, the Authority continues with awareness programs, undertaking strategic restoration programs to ensure mitigation of environment challenges in the local government.

I advised management to liaise with the relevant stakeholders to ensure adequate resource mobilization for Lead Agencies and Local Governments for environment management through provision of conditional grants and program/project proposal development.

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 National Environment Management Authority. 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 Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the National Environment Management Authority, 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 Authority'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 Authority'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 Authority'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 National Environment Management Authority 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;

- **Weaknesses in implementation of guidelines for sustainable use of disaster prone areas**

Section 40 (1)(d) of the National Environment Act, 1995 requires the Authority to issue guidelines and prescribe measures for the sustainable use of hillsides, hilltops and mountainous areas including those relating to disaster preparedness in areas prone to landslides.

It was however noted that the Authority did not issue guidelines or prescribe measures for the sustainable use of disaster prone areas as required. As a result, the victims of the recent landslide in Bududa District in Mbale suffered the adverse effects of disaster since they lacked guidance and early warning. This was attributed to lack of environmental risk early warning and information gathering tools to enable timely collection, analysis, dissemination and formulation of the required guidelines.

Without the tools and therefore the guidelines, it is difficult for NEMA to detect and restrain the potential environment disasters early enough to mitigate their adverse effects or backstop disasters.

Management stated that the National Environment (Hilly and Mountainous Area Management) Regulations, 2000, were developed by NEMA to implement the relevant provisions of the National Environment Act, Cap. 153, which directs use of hilly and mountainous areas in Uganda. The Third Schedule of these Regulations is where there are guidelines with landscape position specific guidance on actions intended to stem soil erosion and mass flows. The body of these Regulations is also littered with guidance to local governments on how to go about the use of steep areas, such as, permitting where necessary (see Second Schedule of the Regulations). Districts with hilly and mountainous landscapes are charged with the responsibility of identifying areas at risk of degradation (see Regulation 6), restrict (see Regulations 8 and 14) and guide use of such areas by land use planning (see Regulation 12), and take proactive measures to conserve them (Regulations 11, 13 and 15). In addition, regulations open up opportunities for by-law formulations, which could then be applied to exclude uses in areas predisposed to mass movements. Unfortunately, the local governments in these areas have not applied these regulations to guide land use practices in these areas. NEMA has only been able to assess

and map a small part of the Elgon (i.e. parts of Sironko and Bulambuli districts). It has also participated in the development of the risk atlas of Uganda.

I advised management to fully comply with the NEMA Act and ensure that funds are availed for the procurement of the environmental risk early warning and information gathering tools.

- **Non-compliance with the Industrial waste disposal conditions**

The National Environment (Waste Management) Regulation S.1 153-2 requires all solid waste generated during rehabilitation, construction and operational phases, to be properly collected and disposed of in an environmentally sound manner at a suitable site approved by local government authorities.

However, a review of the NEMA environmental compliance inspection reports on selected industries revealed non-compliance with the industrial waste disposal conditions specified in their EIA certificates as shown in the Table below:

Area	Observation
Ndurwa Millers Uganda Limited (Mukono), Gulu and Lira	waste generated from the facility operations was observed dumped open into the environment
Jinja (Agro ways (U) LTD located on Plot 34-60 , Kiroro 9	the developer burns solid waste I in the space opposite the factory
Keshwala Group of Companies Limited in Jinja	the facility lacked provisions for appropriate handling of waste resulting into open dumping of carbon black which is a nuisance to surrounding communities
Fresh cuts meat processing facility	No waste water treatment plant

This was attributed to inadequate monitoring by NEMA due to under-staffing and inadequate funding as well as inadequate implementation of the recommended mitigation measures by the Industries.

Non-compliance with the waste disposal conditions leads to pollution of the environment and this poses a health hazard to the citizenry let alone higher costs to the population in an effort to counter its effects.

Management stated that compliance inspections are carried out quarterly and various corrective actions are undertaken by the Authority such as issuing compliance agreements or improvement notices for non-compliance. The Local Governments also have a responsibility to ensure compliance with the relevant environmental requirements, and are therefore expected to undertake compliance inspections but these are constrained by inadequate funding.

I advised management to:

- i. Lobby MOFPED and other stakeholders for adequate funding to enable recruitment of more staff to boost its inspections function.
- ii. Improve on and carry out regular environmental compliance monitoring and inspections in order ensure full waste disposal (environmental) compliance by all industries.

- **Inadequate management of health care waste**

The National Environment (Waste Management) Regulation S.1 153-2 requires all solid waste generated during rehabilitation, construction and operational phases, to be properly collected and disposed of in an environmentally sound manner at a suitable site approved by local government authorities.

Contrary to the above, a review of NEMA inspection reports revealed that health care (medical) waste was not properly collected and disposed of as required. This was attributed to limited storage infrastructure; lack of facilities for Health care waste management, non-functional waste disposal facilities (incinerators), inadequate logistical supplies, limited technical support and financial constraints. The most affected hospitals are the Regional Referral Hospitals among others.

Failure to properly collect and dispose of medical care waste leads to health hazards to the general public and communities living within the vicinity (surroundings) of the health facilities.

Management explained that the responsibility for Health Care Waste management principally lies with the respective health facilities, as stipulated in the National Environment (Waste Management) Regulations.

I advised management to:

- i. Liaise with the relevant stakeholders like MOFPED and others to ensure that health facilities (especially regional referral hospitals) are adequately funded, equipped with the necessary infrastructure such as incinerators and their capacity in ensuring proper waste management is enhanced.
- ii. Increase its monitoring and supervision activities to ensure full compliance with the NEMA waste management regulations.



John F.S. Muwanga
AUDITOR GENERAL

18th December, 2018

