



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**NATIONAL FORESTRY AUTHORITY**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## LIST OF ACRONYMS

CFR	Central Forest Reserve
F/Y	Financial Year
GOU	Government of Uganda
Ha	Hectares
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISSA	International Standards on Auditing
KM	Kilometer
NFA	National Forestry Authority
NTR	Non Tax Revenue
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
USD	United States Dollars

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**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**Opinion**

I have audited the accompanying financial statements of National Forestry Authority for the year ended 30<sup>th</sup> 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 present fairly, in all material respects, the financial position of National Forestry Authority as at 30th June 2018 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards.

**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 and under collection 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 and collection of Non Tax Revenue, 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.29,507,999,357 comprising GOU contribution of UGX 12,269,708,356 and NTR amounting to UGX 17,238,391,001 was budgeted to cater for National Forestry Authority’s activities. However, by the close of the financial year, 66% of the approved budget amounting to UGX.20,012,200,024 had been received resulting into a budget shortfall of UGX.9,495,799,333 (34%). This comprised un-collected NTR of UGX 7,843,822,483 and un-released GOU contribution of UGX 1,651,976,850.

Management implemented a number of planned activities during the year. The major activities that were implemented included; re-surveying and demarcating of 446 km of forest land with concrete pillars, restoration planting of 2160ha of forest land, freeing of 8555.5Ha of forest land from encroachment, establishment of 3,563.5Ha of new tree plantations, production and sale of 20,938,958 assorted seedlings and reopening and maintenance of 186KM of plantation roads.

However, I noted that a number of the planned activities were not implemented for instance, out of the planned 2,236 Ha of degraded forests, only 2,160Ha were restored and out of the planned 7256Ha of plantations, only 994.6Ha were weeded. Management

explained that the failure to implement the planned activities was due to under collection of NTR, low receipt and late release of GOU contribution as well as loss of UGX 194,330,376 which funds were garnished through a court order.

I advised the Accounting Officer to institute stringent measures to enhance revenue collection, as well as liaise with the relevant stakeholders to ensure adequate and timely release/receipt of appropriated funding.

- **Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity by external parties, wages and pension, court awards among other obligations 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 procedures performed, I observed that the Authority's domestic arrears increased from UGX 8,600,817,000 in the prior year to UGX 10,446,677,000, an increase of UGX 1,845,860,000 (21%). This was mainly due to increase in other creditors from UGX 3,479,682,000 in the prior year to UGX 6,538,726,000 (88%) and this comprised gratuity of UGX 2,100,000,000, court awards of UGX 3,800,000,000 and withholding tax due of UGX 600,000,000. I further observed that the prior year payables date as far as FY 2014/15 and out of the prior year's outstanding payables of UGX 8,600,818,000, only UGX 1,911,339,649 was settled during the year leaving a balance UGX 6,689,478,351 unpaid.

The arrears are long overdue and the outstanding amounts are still significant, and pose a risk of litigation and related costs to the Authority.

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 the increase in domestic arrears to inadequate funding by Government as well as the numerous court awards resulting from litigation.

I advised the Accounting Officer to ensure that 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. I also advised management to streamline its eviction procedures in order to minimize litigation and its attendant costs.

### **Other Matter**

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

- **Loss of land in Buhungiro Central Forest Reserve in Kyegegwa District**

Audit noted that during the year NFA lost approximately 212 hectares of forested land in Buhungiro Central Forest Reserve contrary to Section 54 of the National Forestry and Tree Planting Act 2003 which requires the Authority to develop, manage, safeguard and protect Central Forest Reserves.

The loss arose from the Fort Portal High Court ruling in favor of the communities that challenged the NFA eviction from Buhungiro CFR in 2013 due to errors in the boundary maps handed over to NFA by the former Forest department. The maps wrongly depicted the location of River Rwigarwe, the existing natural boundary for Buhungiro Central forest thereby reducing the actual area of the forest reserve on the map.

Also noted was that several boundary maps do not reflect the physical areas of the Central Forest Reserves as they contain errors in shapes and coverage in ground areas such as maps for Bugoma, Mabira, Kampala, Fortportal plantations, Mbale, Lwamunda, Wabizi, Kazooba, Namanve, Bulendo, Soroti plantations and Kibeka CFRs among others. This was attributed to failure by management to timely seek the Solicitor General's guidance on how

to rectify the identified contradictions between the maps and the actual or physical areas on the ground.

Management explained that due to errors in the statutory instrument and the boundary plan map, the land in question was declared by court as customary land belonging to the hitherto evicted communities (plaintiffs). However, NFA has since appealed the court ruling as the judgement was not fair to NFA. Hearing of the appeal is awaited. NFA has also embarked on taking stock of sizes and boundary plan maps of all CFRs with the objective of making appropriate review /adjustment of the statutory instrument.

I advised management to always seek timely guidance from the Solicitor General and correct the identified errors in the maps before undertaking evictions or other enforcement measures. I also await results of management efforts to review the statutory instrument as well as the outcome of the Court appeal.

- **Encroachment on Namanve Central Forest Reserve**

According to the Central Reserves (Namanve Central Forest Reserve) (Partial Revocation) Order of 1996, compartments 1,2,10,13,15&16 of the Namanve central forest reserve with an approximate land area of 1006 hectares were excised or earmarked as an industrial park. These compartments thus ceased to be part of the Namanve central forest reserve.

However, it was noted that most of the remaining compartments of the forest reserve had also been encroached on for instance, compartment 11 and 12 are occupied by Roofings Limited; compartment 14 is being claimed by Buganda Land Board; compartments 3,4,5 &7 are occupied by veterans while construction of Bukasa port is planned on the same compartments. Only compartments 8 and 9 are free of encumbrances. This indicates that NFA is not effectively exercising its mandate of protecting the forest reserves under its control. There is a risk of the forests getting extinct with far reaching effects on the environment and the climate.

Management explained that the encroachers created Certificates of Title on this forest land by court orders without the knowledge of NFA. The authority is in the process of instituting legal proceedings against the registered proprietors of titles falling inside compartment 14 with the objective cancelling the titles. NFA has also petitioned the current Commission of Inquiry into land matters on this issue and the Commission has commenced investigations on the matter. Encroachers on plot 3, 4, 5, and 7 were evicted in 2013 but secured a court injunction against eviction and the case is still in

court.

I advised management to expedite the process of instituting legal proceedings against illegal occupants of forest reserves. I also await the outcome of the investigations commenced by the Commission of Inquiry on land matters.

- **Lack of a training policy**

It was noted that despite spending UGX 77,816,061 on staff training during the year, the Authority did not have a training policy in place to guide the training. Also noted was that staff training needs assessment was not carried out contrary to section 7.1 of the NFA Human Resource Manual which requires the Authority to provide equal training opportunities to its staff as per the training needs assessment as well as implement the training and development policy in accordance with the human resource development plan.

Without a training policy and staff training needs assessment, it was difficult to confirm whether staff training needs were properly identified and whether the Authority's training initiatives were directed to deserving beneficiaries. There a risk that the funds spent on training of staff may have been put to waste.

Management explained that the draft Training Policy and Plan was formulated and completed and was due for approval by the Board approval in October 2018.

I advised management to expedite the process of approval of the draft Training Policy and Plan to guide the Authority's training initiatives and to also ensure that training needs assessments are carried out before staff trainings are undertaken henceforth.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the statement of Board of Directors' responsibilities, the report of the Directors 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 Forestry Authority.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the International Financial Reporting Standards 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 National Forestry Authority, and using the International Financial Reporting Standards 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 National Forestry 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:

- **Unlicensed activities in forest reserves**

Section 32 (1) (b)(vi) of the National Forestry and Tree Planting Act, 2003 states that no person shall, except for forestry purposes and in accordance with the management plan, or in accordance with a license granted under the Act, clear, use or occupy land in a forest reserve or community forest, for recreation, commercial, residential, industrial, or hunting purposes.

Contrary to the above, it was noted that various individuals and companies such as M/S Pearl leisure and Gardens Beach Ltd, Victoria Forest Ltd, Panaroma camping site, King Fisher camping, Marcos Properties Ltd and Adventure World Ltd were undertaking commercial (eco-tourism) activities in Lutoboka Central Forest Reserve without licenses.

In addition, M/s Entebbe Ecotourism Forest Beach Ltd was awarded an extra 20Ha of land (the company originally had 2Ha) in Kitubulu CFR on 30<sup>th</sup> June 2014 without approval of the NFA Board hence rendering the additional allocation irregular. The company had also not paid license fees to the tune of USD 9,544 in respect of the original license (No. 5).

Further, audit noted that over 2,078 private tree planters that were awarded land in 1996 had not been licensed leaving the Authority with no basis for invoicing them for payment of lease fees. This implies loss of potential revenue to the Authority that is critical for improved performance of the Authority and hence service delivery. Additionally, the practice may lead to unplanned or unregulated developments, encroachment and degradation of the forest reserves.

Management explained that the Authority was in the process of regularizing all activities in the CFRs adding that some of the licenses had been forwarded to the Solicitor General for approval. The Authority had also issued a demand Note for the unpaid license fees for the 2 hectares that were legally allocated to M/S Entebbe Ecotourism Forest Beach.

I await the outcome of the actions undertaken by management to address the matter



John F.S. Muwanga  
**AUDITOR GENERAL**

17<sup>th</sup> December, 2018

