



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE**  
**UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE**  
**DEVELOPMENT (USMID) PROGRAM**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## **LIST OF ACRONYMS**

<b>GOU</b>	Government of Uganda
<b>IEC</b>	Information, Education and Communication
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISSA</b>	International Standards on Auditing
<b>NBI</b>	National Data Transmission Backbone
<b>EGI</b>	Electronic Government Information
<b>PFMA</b>	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>USMID</b>	Uganda Support to Municipal Infrastructure Development (USMID) Program
<b>F/Y</b>	Financial Year
<b>MDA</b>	Ministry, Department, and other Agencies
<b>IDA</b>	International Development Association
<b>PSU</b>	Project Support Unit
<b>IFMS</b>	Integrated Financial Management System

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**SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM**  
**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 the Uganda Support to Municipal Infrastructure Development (USMID) Program 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 of the Uganda Municipal Infrastructure Development (USMID) program for the year ended 30<sup>th</sup> June 2018 are prepared in all material respects in accordance with IDA guidelines and the cash basis of accounting as described under Note 2.0 to the financial statements.

**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 Program 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. I have determined that there are no key audit matters to communicate in my report.

## **Other Matter**

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

- **Under-absorption of funds by the Municipal Councils (MCs)**

All the 14 Municipal Councils (MCs) failed to utilize or absorb all their Municipal Development Grants (MDG) and Capacity Building Grants (CBG). The total un-spent balances at the close of the financial year amounted to UGX 95,006,243,857 and this comprised Municipal Development Grants amounting to UGX 94,472,206,759 and Capacity Building Grants amounting to UGX 534,037,098. Notable among the poor performing MCs were Gulu, Mbarara, Hoima and Lira with performances rated as 19%, 15%, 11% and 9% respectively.

Under-absorption of program funds is indicative of implementation inefficiencies. This negatively affects program progress and may impact on future program funding. It may also result in costly project extensions and failure to achieve the overall program objectives.

Management attributed the under-absorption of funds to the lengthy procurement processes coupled with the failure by Ministry of Finance, planning and Economic Development (MoFPED) to upload the USMID IFMS program budget line as well as the non-activation of USMID payment codes on the IFMS which rendered it difficult for councils to access program funds from the system.

I advised the project management to engage MoFPED and address the issue of access to project funds through the IFMS as well as design strategies to improve absorption of funds by the Municipal Councils.

- **Under-absorption of funds by the Project Support Unit (PSU)**

A review of the fund balance, cash book and bank balances revealed that UGX.6,722,829,229 remained unutilized by the project Support Unit at the year end.

Failure to utilize funds implies that planned activities such as field follow up activities, annual performance assessment of the USMID participating Municipal councils and completion of the renovation of the Ministry of lands headquarters were not implemented and this could affect the attainment of the project objective of enhancing institutional performance of Local Governments. This may also lead to unnecessary additional costs to the program arising out of a service charge of 0.75% per annum.

Management explained that the funds were meant for implementation of project activities up to December 2018 when the project is scheduled to end.

I advised management to review the project progress with a view of fast tracking its activities and enhancing the PSU absorption capacity.

### **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 USMID Program.

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 project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Support to Municipal Infrastructure Development (USMID) Program, 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 program'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 Program'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 Program'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 Support to Municipal Infrastructure Development (USMID) Program 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 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.



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John F.S. Muwanga

**AUDITOR GENERAL**

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

