



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA NATIONAL CULTURAL CENTRE
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
GOU	Government of Uganda
UNCC	Uganda National Cultural Centre
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
VAT	Value Added Tax
F/Y	Financial Year
MDA	Ministry, Department, and other Agencies

THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA NATIONAL CULTURAL CENTRE
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Uganda National Cultural Centre 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 Uganda National Cultural Centre 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 Theatre 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 matter described below to be key audit matter communicated in my report.

- **Payables Management**

Review of the financial statements revealed that Centre had accumulated payables amounting to UGX.1, 940,349,139. These comprised of creditors (UGX.26,150,100) and other payables comprising of PAYE, Gratuity, NSSF and VAT (1,914,199,039). Further analysis indicated that these payables increased from UGX.1,390,329,267, in 2016/2017 to UGX.1,940,349,139 in 2017/18, an increase of UGX.550,019,872, an average increase of 40% as indicated in the schedule below;

	2017/18	2016/17	Variance	Increase (%)
PAYE	408,414,732	170,983,372	237,431,360	139
VAT	476,589,454	345,781,556	130,807,898	38
NSSF	427,607,063	310,789,945	116,817,118	38
Gratuity	601,587,790	526,049,145	75,538,645	14
Creditors	26,150,100	36,725,249	-10,575,149	(28)
	1,940,349,139	1,390,329,267	550,019,872	40

The accumulation of payables could result into reputational and litigation risks as well as penalties.

In response management explained that it signed a MoU with both Uganda Revenue Authority and National Social Security Fund to pay the outstanding arrears and that Government has now taken over the wage bill of Uganda National Cultural Centre which used to be the cause for non-remittance of statutory obligations. With the wage provision to UNCC, accumulation of arrears is not expected

I advised management to make proper budgeting and ensure that it provides for the outstanding payables to avoid possibility of legal action.

Emphasis of matter

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

- **Accumulation of receivables**

A review of the Statement of financial position revealed that receivables totaling to UGX.2,071,691,350 remained outstanding at the year end. Further analysis indicated that receivables increased over the year from UGX.137,161,052 in the financial year 2016/2017 to UGX.2,071,691,350 during the year under review. This was attributed to a weak debt management policy. The Centre also lacked a debtors' aging list analysis to enable tracking

of debtors. Accumulation of receivables leads to cash flow challenges and hampers implementation of the Centre's day to day activities.

In response, Management attributed the challenge to the process of renovation of the National Theatre building in the period as this affected the revenue generating sources such as the auditorium, green room, Centre for Innovative Cultural Practice and office space from which income is generated.

It further explained that a debt management policy had now been developed to enhance revenue management. In addition, an accounting software namely; Quick Books accounting package has been acquired.

I advised management to ensure outstanding revenue is collected in accordance with the debt management policy.

Other Matter

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

- **Doubtful Refund of Salary**

During the financial year under review, Uganda National Cultural Centre (UNCC) paid UGX.50,000,000 to the Ministry of Gender, Labour and Social Development (MoGLSD) being refund of overpaid salaries and gratuity. However, accountability for the refunded amount of UGX.50,000,000 in form of acknowledgement receipt was not availed for verification.

Unsupported expenditure is potentially fraudulent.

I advised the Accounting Officer to submit the supporting documents for verification.

- **Under Staffing**

It was noted that out of the 57 approved posts for the UNCC, only 38 (67%) were filled leaving 19 (33%) posts vacant. Further analysis indicated that the unfilled posts included those of key personnel such as such as head of research and development, head of procurement, senior accountant and production manager.

Lack of key staff could affect the performance and achievement of the Centre's overall goals and objectives. The existing staff may also be overworked leading to demotivation and turnover.

In response, Management explained that some positions in the structure have not been filled due to lack of funding.

I advised management to ensure that the key positions are duly filled to ensure proper running of the Theatre's activities.

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 Uganda National Cultural Centre.

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 Theatre's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda National Cultural Centre, 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 Theatre'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 Theatre'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 Theatre'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 National Cultural Centre 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;

- **Evaluation of the Internal Audit Function**

Section 7.0-7.6 of the Internal Audit Charter requires the Head of the Internal Audit Function in Ministries, Departments and Agencies to carry out the following:

- To prepare and implement annual audit plan and submit it to the Audit Committee for review and approval with a copy to the Commissioner Inspectorate and Internal Audit for technical guidance and quality assurance.
- To evaluate, assess and report on significant emerging issues and their impact on operations, and control processes and Internal Audit function.
- To issue periodic reports to the Audit Committee, Management, Commissioner Inspectorate & Internal Audit and Accountant General.

However, it was noted that neither the internal audit work plan nor periodic reports were prepared during the financial year under review. Minutes of the audit committee were also not availed for verification.

A weak internal audit function compromises internal controls and could result in failure to detect fraud and errors. It could also result in the entity's failure to achieve its planned objective.

Management explained that the internal Auditor has an approved work plan and some reports for the year under review.

Some could not be presented as they had not yet been considered by the Audit Committee of the Board as their term of office expired before they could do it (May 2018)

I advised management to ensure that the internal audit function is strengthened to undertake its oversight function effectively.

- **Expiry of Board Tenure**

Section 4 of the Uganda National Cultural Centre Act, 1959 provides that the Board of Trustees shall be appointed by the Minister for the purpose of administering, controlling and managing of the National Cultural Centre. However, appointment letters revealed that the three year tenure of the Board expired on 6th May 2018 and the Minister had neither

renewed their tenure nor appointed a new one. This was attributed to the delays by the appointing Authority.

The absence of the Board could undermine the Centre's overall performance.

In response, Management explained it has followed up the issue of appointment of the Board with the Minister and was informed that a Cabinet Memo has already been submitted to Cabinet Secretariat awaiting consideration.

I advised management to follow up with the Minister to expedite the renewal or appointment of a new Board.

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

John F.S. Muwanga

AUDITOR GENERAL

12th December, 2018

FINANCIAL STATEMENTS