



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**WATER AND SANITATION DEVELOPMENT FACILITY SOUTH WEST**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL**

**UGANDA**

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## **LIST OF ACRONYMS**

|         |  |
|---------|--|
| DEA     | Directorate of Environmental Affairs                   |
| DWD     | Directorate of Water Development                       |
| DWRM    | Directorate of Water Resources Management              |
| IGG     | Inspector General of Government                        |
| MoFPED  | Ministry of Finance, Planning and Economic Development |
| MWE     | Ministry of Water and Environment                      |
| NEMA    | National Environment Management Authority              |
| NFA     | National Forestry Authority                            |
| NWSC    | National Water and Sewerage Corporation                |
| PS/ST   | Permanent Secretary/Secretary to Treasury              |
| UGX     | Uganda Shilling  |
| UNMA    | Uganda National Meteorological Authority               |
| WSDF_SW | Water and Sanitation Development Facility- South West  |

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WATER AND SANITATION DEVELOPMENT FACILITY SOUTH WEST 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 Water and Sanitation Development Facility South West and Environment 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 Water and Sanitation development Facility South West for the year ended 30<sup>th</sup> 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 Water and Sanitation Development Facility South West 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.

### **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.

- **Funding gap**

I observed that WSDf-SW had a revenue budget on the GoU component of UGX.9,662,000,000, of which only UGX.9,033,240,721 was realised leading to a funding gap of UGX 628,759,279(7%) as shown in the table below:

| <b>Quarter</b> | <b>Budget (UGX)</b>  | <b>Released (UGX)</b> | <b>Unreleased (UGX)</b> |
|----------------|----------------------|-----------------------|-------------------------|
| 1              | 3,983,248,500        | 4,938,521,150         | (955,272,650)           |
| 2              | 1,965,248,500        | 2,063,000,000         | (97,751,500)            |
| 3              | 1,858,254,500        | 307,786,000           | 1,550,467,900           |
| 4              | 1,855,248,500        | 1,723,761,238         | 131,487,262             |
| <b>Total</b>   | <b>9,662,000,000</b> | <b>9,033,240,721</b>  | <b>628,759,279</b>      |

As a result of the funding gap, various planned activities were not implemented such as Development of an Environmental Management Plan and Extension of Power lines to Pumping/booster stations.

The Accounting Officer explained that a request for supplementary funding had been made with Ministry of Finance Planning and Economic Development (MoFPED) and the results are awaited.

I advised management to liaise with MoFPED for release of appropriated funds as this will enable the project achieve its objectives

### **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.

- **Delayed Completion of Projects**

I noted that by the time of audit in November, 2018 which was 1 year after the implementation phase closure date, all the major infrastructural projects had not yet been completed as shown in the Table below:

| <b>Project</b>                          | <b>Percentage Completion</b> |
|---|------------------------------|
| Construction Works For Ishongororo FSTP | 77.5%                        |
| Construction works for Buyamba          | 89%                          |
| Construction works for Kambuga Phase II | 59%                          |
| Construction works for Kambuga Phase I  | 90%                          |
| Construction works for Kiko             | 95%                          |

I explained to the Accounting Officer that delayed completion of projects negatively impacts on the achievement of project objectives and may result in unnecessary project extensions and cost overruns.

The Accounting Officer explained that in Nov. 2017, before closure of the EU – MDG project, a request was made to Austrian Development Agency (ADA) for the release of the last tranche of funding, however, the funds are yet to be released.

Subsequently a supplementary funding request was made with MoFPED and a response is still awaited.

I advised the Accounting Officer to continue liaising with the funding agency and the ministry to have the funds realized.

- **Lack of Land titles for water Schemes**

I noted that management undertook various water supply schemes/projects valued at UGX.17,983,488,320 which are at different levels of completion without acquisition of relevant land ownership documents. The Schedule below refers;

| <b>Scheme/ project</b>        | <b>Location</b>   | <b>Level completion of</b> | <b>Value UGX</b>      |
|-------------------------------|-------------------|----------------------------|-----------------------|
| Kihihi Extension              | Kanungu district  | Completed                  | 1,226,115,722         |
| Kainja                        | Kamwenge district | Completed                  | 1,551,271,773         |
| Nsiika                        | Buhweju district  | Completed                  | 1,630,175,340         |
| Kashaka-Bubaare               | Mbarara district  | Completed                  | 2,468,552,828         |
| Water and sanitation project  | Buyamba;          | 89%,                       | 2,396,357,492         |
| Water and sanitation project  | Kiko;             | 95%,                       | 1,609,121,951         |
| Water and sanitation project  | Kambuga Phase-I;  | 90%,                       | 2,398,192,016         |
| Water and sanitation project  | Kambuga Phase-II; | 59%.                       | 2,782,851,093         |
| Faecal Sludge Treatment Plant | Ishongororo       | 77.5%,                     | 1,920,850,105         |
| <b>Total</b>                  |                   |                            | <b>17,983,488,320</b> |

Lack of land ownership documents renders the construction sites susceptible to future ownership claims from third parties. There is a risk of loss of funds and the investment in case of successful future claims on the land.

The Accounting Officer undertook to secure land ownership documents before commencement of future investments.

I advised the Accounting Officer to work with relevant authorities such as local governments, Uganda Land Commission and Ministry of Lands Housing and Urban development to acquire the land titles.

- **Under absorption of funds**

I noted that WSDF\_SW received funding of UGX.9,033,413,054 of which only UGX.8,518,800,507 was utilized leaving a balance of UGX.514,612,547 (6%) as indicated in the Schedule below:

|   |                      |
|---|----------------------|
| Opening Balance as at 01/07/2017                          | <b>172,333</b>       |
| Add Receipts During the Year                              |                      |
| 02/08/17  | 4,938,521,150        |
| 30/10/17  | 2,063,000,000        |
| 02/02/18  | 307,786,000          |
| 07/05/18  | 1,285,474,660        |
| 25/June/18  | 255,264,762          |
| 25/June/18  | 183,021,816          |
| <b>Total Funds available</b>                              | <b>9,033,413,054</b> |
| <b>Less Expenditure</b>                                   | <b>8,518,800,507</b> |
| <b>Total Unspent balance by 30<sup>th</sup>/June/2018</b> | <b>514,612,547</b>   |

Under absorption of funds is indicative of implementation inefficiencies and this could negatively affect progress of ongoing projects as well as future project funding.

The Accounting Officer attributed the under absorption of funds to late disbursement of project funds equivalent to UGX.438,286,578 that were received on 25<sup>th</sup> June 2018.

I advised the Accounting Officer to review the progress of the projects under implementation with a view of fast tracking pending activities in order to improve or enhance funds absorption.

**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 Water and Sanitation Development Facility South West 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 Water and Sanitation Development Facility South West 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 Facility'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 Facility'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 Water and Sanitation Development Facility 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.



John F.S. Muwanga

**AUDITOR GENERAL**

14<sup>th</sup> December 2018

