



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
WATER MANAGEMENT AND DEVELOPMENT PROJECT CREDIT NUMBER 5127-UG  
(PROJECT ID: WMDP-P123204) IMPLEMENTED BY MINISTRY OF WATER AND  
ENVIRONMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL  
UGANDA**

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## **LIST OF ACRONYMS**

<b>FY</b>	<b>Financial Year</b>
<b>GOU</b>	Government of Uganda
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>ISA</b>	International Standards on Auditing
<b>MDA</b>	Ministry, Department, and other Agencies
<b>MoFEP</b>	Ministry of Finance, Planning and Economic Development
<b>MWE</b>	Ministry of Water and Environment
PFMA	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>WMDP</b>	Water Management and Development Project

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WATER MANAGEMENT AND DEVELOPMENT PROJECT (WMDP II- MWE)  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the Water Management and Development Project (WMDP II- MWE) for the year ended 30<sup>th</sup> June 2018. These financial statements comprise of the statement of Cash Receipts and the Budget Execution Statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the statement of cash receipts and payments and budget execution statement for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs) as described under note 1 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 Project 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 report.

## **Emphasis of Matter**

Without qualifying my opinion, I draw your attention to Note 4.1 to the Financial Statements:

- **Low absorption of project funds**

A review of the financial statements (Note 4.1) and the project closure report revealed that out of the disbursed funds amounting to USD.55,210,508 over the project tenure, only USD.39,383,706 had been absorbed by 30th June, 2018 leaving a balance of USD.15,826,802 (29%) un-utilized. Also noted was that out of the released Government of Uganda contribution of UGX.2,741,253,455 over the same period, only UGX.2,646,319,487 was utilized leaving a balance of UGX 94,933,968 unspent. Management attributed the low absorption of funds to delayed procurement processes and contractor's management inefficiencies leading to under-performance (slow progress) of the works contracts for Upper Sipi (Kapchorwa) Gravity Flow piped water system, Rukungiri and Koboko water supply systems.

There is a risk that the project may lose funds as the unspent balances may be returned to the project funders since the project is nearing its closure date of 30<sup>th</sup> December 2018.

I advised management to review the project progress with a view to fast tracking activities so as to ensure timely project implementation as well as enhance project funds absorption ahead of the project closure.

## **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.

- **Non-implementation of planned projects**

Review of the project annual budget and work plan revealed that during the year under review, management planned to undertake the construction of the Middle Sipi mini irrigation system (at a contract price of USD 757,500) as well as secure a consultant for the accreditation of the National Reference Laboratory (at a contract price of USD.180,000).

However, it was noted that the planned activities were not undertaken due to failure by management to secure a "no objection" from World Bank as the Bank advised that no contracts could be signed with implementation periods beyond the project closure date.

Non-implementation of planned projects within the agreed project tenure denies the project access to development partner funding as the project activities will have to be

funded by the Government of Uganda. The practice may also lead to unnecessary project extensions and the associated costs.

Management explained that the two contracts encountered procurement delays and could therefore not be signed due to the limited remaining time to the WMDP project closure date (the two activities could not be substantially completed by 31st December 2018).

I advised the Accounting Officer to improve on project planning and coordination in order to minimize unnecessary delays in internal processes so as to ensure timely implementation of project activities.

- **Presentation of Financial statements in an improper format**

During the year under review, the Accountant General issued a new format for preparation of reports and financial statements for Central Government and projects on IFMS under modified cash basis.

However, comparison of the project financial statements on IFMS with the copies submitted for audit revealed that the issued format was not used in the preparation of the final accounts for the project for the year ended 30th June 2018 as the two versions of the financial statements were completely different and incomparable. Failure to observe the approved reporting format by the Accountant General could lead to inadequate assessment of performance results and misinterpretation of the financial statements by the users. The practice also makes the consolidation of the financial statements by the Accountant General challenging.

Management explained that the adopted reporting format was agreed upon with the World Bank and is in compliance with the International Public Sector Accounting Standards.

I advised the Accounting Officer to liaise with the Accountant General to ensure that the formats of the project financial statements are harmonized to take care of both Government of Uganda and development partners' interests.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the Statement of Management's responsibilities 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 Management and Development Project.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with International Public Sector Accounting Standards and in a manner required by donor reporting guidelines and terms and conditions, 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 Water Management and Development Project, and using the International Public Sector Accounting Standards unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Project'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 Project'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 Project'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 Management and Development Project 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**

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

