



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
WATER SUPPLY AND SANITATION PROGRAMME PHASE II IMPLEMENTED BY
MINISTRY OF WATER AND ENVIRONMENT FOR THE YEAR ENDED 30TH JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
UGANDA

Contents

LIST OF ACRONYMS	2
Opinion	3
Basis of Opinion.....	3
Key Audit Matters.....	3
Other Matter	4
• Revenue shortfall	4
• Lack of land titles for Water Supply Systems	4
Other Information	5
Responsibilities of the Accounting Officer for the Financial Statements	5
Auditor’s Responsibilities for the Audit of the Financial Statements	6
Other Reporting Responsibilities.....	7

LIST OF ACRONYMS

FY	Financial Year
GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
JPF	Joint Partnership Fund
MoFEP	Ministry of Finance, Planning and Economic Development
MWE	Ministry of Water and Environment
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
WSDf-C	Water and Sanitation Development Facility Central
WSSP	Water Supply and Sanitation Programme

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
WATER SUPPLY AND SANITATION PROGRAMME PHASE II
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Water Supply and Sanitation Programme Phase II for the year ended 30th June 2018. These financial statements comprise of the statement of Financial Position, Statement of Financial Performance, Cash Flow Statement and the Statement of changes in Equity together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements 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 Programme 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.

Other Matter

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

- **Revenue shortfall**

Water and Sanitation Development Facility- Central had a revenue budget of UGX.59,222,360,000 comprising of UGX.43,668,360,000 that was to be funded from Joint Partnership Fund (JPF) and UGX.15,554,000,000 to be received from the Government of Uganda (GoU). However, I noted that only UGX.47,967,425,930 was received comprising of UGX.35,761,378,272 and UGX.12,206,047,658 from JPF and GoU respectively. This caused a revenue shortfall of UGX.11,254,934,070 (19%).

Underfunding constrains the facility's cash flows and negatively affects implementation of planned activities. Accordingly, some activities were not implemented namely; the training of 68 masons in improved sanitation and the commissioning of 15 town water systems.

Management attributed the revenue shortfall to budget cuts by Ministry of Finance, Planning and Economic Development and to untimely release of donor funds by the African Development Bank.

I advised the Accounting Officer to liaise with Ministry of Finance, Planning and Economic Development to ensure timely release of budgeted funds to facilitate full and timely implementation of planned activities.

- **Lack of land titles for Water Supply Systems**

According to Paragraph 16.13.7 of the Treasury Instructions, 2017, the capacity of the government entity to control the future economic benefits or service potential stemming from legal rights may be evidenced by title deeds or similar rights that protect the government entity's interest. Contrary to the requirement above, I noted that management did not have title deeds for the land on which twelve (12) Water Supply Systems, three (3) Gravity Flow Schemes and one (1) Faecal Management Sludges were constructed.

Lack of title deeds 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 a successful future claim on the land.

The Accounting Officer explained that the issuing of land titles is a lengthy process which is being handled by the various land board and area committees.

I advised the Accounting Officer to expedite the process of acquisition of land titles for all construction sites and in future, to ensure that title deeds are obtained before undertaking government investments on land.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the Statement of Management's responsibilities, the commentaries by the Fund Accountant 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 Supply and Sanitation Programme Phase II.

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 Programme's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Water Supply and Sanitation Programme

Phase II, 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 Programme'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 Programme'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 Programme'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 Supply and Sanitation Programme Phase II 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

17^h December, 2018

FINANCIAL STATEMENTS