



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE JOINT PARTNERSHIP FUND
FOR THE YEAR ENDED 30TH 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
WHT	Withholding Tax
JPF	Joint Partnership Fund
JWESSP	Joint Water And Environment Sector Support Programme

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE JOINT PARTHNSHIP FUND FOR THE
YEAR ENDED 30TH JUNE 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Joint Partnership Fund, which comprise the Statement of Financial Position, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In my opinion, the financial statements of the Joint Partnership Fund 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 comply with 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 Statements section of my report. I am independent of the Joint Partnership Fund 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 matters described below to be key audit matters communicated in my report.

- **Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears.

Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that arrears totalling to UGX.146,378,000 relate to 2016/17 financial year and UGX.16,590,774,275 were incurred during the year ended 30th June, 2018. The outstanding arrears amount is significant, and poses risks of litigation and related costs to the Ministry.

The continuous existence of domestic arrears implies that the Accounting Officer has not adhered to the commitment control system of government that is meant to stop entities from committing government beyond the level of availed resources.

The Accounting Officer attributed the anomaly to inadequate funding by Government.

I advised the Accounting Officer to adhere to the government commitment control system to avoid risk of overcommitting government.

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.

- **Failure to refund tax paid out of the JPF funds**

Contrary to Article 2 (IV) (e) of the JWESSP 2013/14 - 2017/18 Joint Financing Agreement (JFA) between GOU and the development partners, Project funds amounting to UGX.74,905,000 were expended on withholding tax and the funds had not been refunded to the JPF account. The practice amounts to a breach of the JFA and this may strain relations with the development partners as well as negatively affect future project funding.

Management indicated that the refund would be prioritized under domestic arrears payments in the financial year 2019/20

I advised the accounting officer to ensure that the funds are refunded to the JPF account without further delay.

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-disbursement of the Donor Funds**

I noted that by the end of the project implementation period on 30th November 2017, the Austrian Development Agency (ADA) had not disbursed the last portion of the funding amounting to EUR.1,703,000 and yet no notice of termination of the Delegation Agreement was served to the Ministry of Water and Environment. As a result, Water and Sanitation Development Facility-East and Water and Sanitation Development Facility-South West (project implementing entities) remained with unsettled obligations amounting to UGX. 16,590,774,275. Delayed payment of contractors may lead to interest charges as well as litigation and its associated costs to the detriment of the Ministry.

The Accounting officer explained that the Ministry was still consulting with the development partner for resolution of the matter .Nonetheless, the Ministry has requested for supplementary funding from Ministry of Finance Planning and Economic Development (MoFPED) to fill the financial gap, and this will help in having the above-mentioned projects completed.

I await the outcome of management’s efforts.

- **Unimplemented activities due to Budget shortfall**

I noted that out of a revenue budget of UGX.17,633 Bn for WSDF-North, the facility received only UGX.7,271 leading to a shortfall UGX.10,362 representing 60%. As a result, Eight (8) Water Supply and Sanitation Projects planned for IDP camps in Palenga, Barr-Jobi, Alero, Kati, Parabong, Olilim, Abia and Apia were not undertaken.

Failure to implement planned activities affects timely achievement of the program objective of providing adequate, reliable, sustainable and accessible water supply, as well as promotion of improved practices of hygiene and sanitation within the community.

The accounting officer explained that the unimplemented activities were the result of delay in signing the financing agreement between government and the development partner (KfW) for phase 3 of the project though prior planning and budgeting for the financial year had already been done. The financing agreement and separate agreement have now been signed.

I advised management to liaise with MoFPED as well as engage the development partners to ensure timely disbursement of the Phase III funds to enable implementation of the planned activities

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

I noted that management undertook various water supply schemes in the sum of UGX 13,946,988,312 without land ownership documents as indicated in the Schedule below:

Town	Contractor	progress [%]	Contract Value in UGX
Namokora	M/s Awico Engineering Company Limited	100	805,714,030
Mucwini	M/s Awico Engineering Company Limited	100	738,130,415

Town	Contractor	progress [%]	Contract Value in UGX
Lagoro	M/s Awico Engineering Company Limited	100	746,367,134
Loro	M/s Palm Construction Company Ltd	100	4,190,384,417
Paloga	M/s Norm Contrás Ltd	95	732,930,199
Palabek Ogili	M/s Norm Contrás Ltd	95	724,444,952
Pabbo	M/s Mupa Technical Services Ltd	95	4,369,111,833
Pacego	M/s Norm Contrás Ltd	95	1,639,905,332
Total			13,946,988,312

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 successful future claims on the land.

Management explained that the issuing of land titles is being handled by the various land board and area committees in the districts with support of the district local governments and MoFPED.

I advised the accounting officer to expedite the land ownership process especially for the schemes that are at 100% Completion.

- **Under funding of Water Management Zones**

I noted that the Four Water Management Zones had a revenue budget of UGX.5,77bn for both the JPF and GOU funding; however during the year, the Zones received only UGX 4.59Bn leading to a shortfall of UGX.1.17Bn representing 20% as shown in the table below;

Component	Budget (Billion)	Actual (Billion)	Variance	% age Variance
JPF	3,200,000,000	3,189,761,000	10,239,000	0.32
GOU	2,570,000,000	1,403,380,000	1,166,620,000	45.4
Total	5,770,000,000	4,593,141,000	1,176,859,000	45.72

With the JPF funding winding up in June 2019, it is not clear how the operations of the water management zones will be sustained.

The Accounting Officer explained that liaison with Ministry of Finance, Planning and Economic Development is ongoing and supplementary funding had been requested.

I await the outcome of management's efforts.

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 Ministry of Water 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 Ministry of Water 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 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 Fund'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 Fund'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 Joint Partnership Fund 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.

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

18th December 2018