



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
LAKE VICTORIA ENVIRONMENT MANAGEMENT PROJECT II (CREDIT NUMBER
4531-UG) IMPLEMENTED BY MINISTRY OF WATER AND ENVIRONMENT
FOR THE YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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List of Acronyms

BMU	Beach Management Units
FPF	Fisheries Protection Force
GoU	Government of Uganda
IDA	International Development Association
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
LVEMP	Lake Victoria Environment Management Project
USD	United States Dollars

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FOR THE YEAR ENDED 30TH JUNE 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Lake Victoria Environment Management Project II (Credit Number 4531-UG) implemented by Ministry of Water and Environment for the year ended 30th June 2018. These financial statements comprise the Statement of Cash Receipts and Payments and Statement of Budget Execution for the period then ended, accompanying schedules and a summary of significant accounting policies and other explanatory notes.

In my opinion, the financial statements of Lake Victoria Environment Management Project (LVEMP) II implemented by Ministry of Water and Environment present fairly, in all material respects, the cash receipts and payments and the budget execution for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and Donor Reporting Guidelines.

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 Lake Victoria Environment Management Project in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), 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.

Other Matter

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

- **Shortfall in Project financing**

According to the Financing Agreement, the project was expected to receive USD.25,000,000 from International Development Association (IDA) and counterpart funding of USD.2,500,000 from Government of Uganda (GoU). However, I established that over the project tenure which ended 30th June 2018, only 26,339,756.02 was disbursed, leading to a shortfall of USD.1,160,245 (IDA – USD.773,317 and GoU - USD.386,928).

Relatedly, the project had a GoU revenue budget for the year of USD.282,976.45 but only received USD.87,929.3, leading to a shortfall of USD.195,047.15 (69%).

The shortfalls affected implementation of planned project activities such as; the preparation of technical report on levels of concentration of heavy metal in selected organisms in Lake Victoria valued at USD.470,800.

Management explained that it would follow-up with the Ministry of Finance, Planning and Economic Development to release all future planned project proceeds.

I advised the Accounting Officer to engage the relevant stakeholders to ensure that all budgeted funds are received to facilitate full implementation of project activities.

- **Destruction of project structures and equipment**

Following the rampant illegal fishing, harvesting of immature fish and destruction of fish breeding areas on Lake Victoria, the Fisheries Protection Force (FPF) headed by Uganda Peoples Defense Forces (UPDF) was established. I noted that in performing their role of cracking down all forms of illegalities in the fishing industry, the Fisheries Protection Force destroyed several structures and equipment, which LVEMP II had supported through its interventions. For instance, the BMU offices in Kalungu were destroyed

while Kagonya landing site was burnt down thereby destroying the fish cages, fish feeds and the project documents.

The destruction of the LVEMP structures and equipment has stalled the water hyacinth removal activities at the landing sites since most of the community members who were involved in the activity left the Landing sites and relocated elsewhere. Overall, the destruction puts to waste funds invested by the project in the various interventions along the lake areas and thus hampers the achievement of the project objectives.

The Accounting Officer explained that the Ministry of Water was collaborating with Ministry of Agriculture, Animal Industries and Fisheries and State House in supporting the affected communities in meeting the fishing standards, as well as replacing the damaged property.

I advised Management to continue following up the issue with the responsible stakeholders to avoid further loss of investments.

- **Advance payment to Contractor**

PPDA Regulation 44(3) of 2014 (Contracts) states that a procuring and disposing entity shall not make an advance payment exceeding thirty percent of the contract price. Audit however noted that on 27th September, 2017, management awarded M/s Joh Achelis & Sohne GmbH of Bremen Germany a contract (REF:MWE/SUPLS/16-17/00072/2) for supply of 5 garbage trucks at a contract price of Euros 936,818.5.

However, on 16th April 2018 the entire contract amount of Euros 936,818.5 was paid to the contractor, contrary to the stated regulation. Also noted was that although the contractor was supposed to deliver the trucks within 90 days of payment (16th July 2018), by the time of audit (November 2018), delivery had not been made.

There is risk of loss of funds in case of non-performance by the contractor. This anomaly was due to management's failure to comply with the PPDA regulations.

The Accounting Officer explained that payment of the contract sum was because the project was ending and the unspent balance was to be returned to World Bank. He further noted that the goods were shipped in the names of Ministry of Water and Environment, as per the Bill of lading issued on 31st October 2018. The goods were expected to arrive at Dar es Salaam Port in December 2018.

I advised the Accounting Officer to ensure compliance with PPDA regulations. I equally await the delivery of the garbage trucks.

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, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express 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 inconsistent with the financial statements or in 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 Lake Victoria Environment Management Project II

The Accounting Officer is also responsible for the preparation of financial statements in accordance with IPSAS, and in conformity with the 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 affecting the delivery of the mandate of the Lake Victoria Environment Management Project II and using the IPSAS 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 General'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 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 judgement 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 my 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 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.



John F.S. Muwanga
AUDITOR GENERAL

18th December 2018