



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MAKERERE UNIVERSITY BUSINESS SCHOOL
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
USD	United States Dollars
MDA	Ministry, Department, and other Agencies
NSSF	National Social Security Fund
UCF	Uganda Consolidated Fund
MUBS	Makerere University Business School
AIMS	Academic Information Management System
CEMAS	Centralized Management Accounting System
EIS	Education Information System
UOTIA	Universities and Other Tertiary Institutions' Institutional Standards
RENU	Research and Education Network for Uganda

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MAKERERE UNIVERSITY BUSINESS SCHOOL
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Makerere University Business School for the year ended 30th 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 Makerere University Business School 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 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 School 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.

- **Implementation of Budget approved by Parliament**

Section 45 (3) of the Public Finance Management Act, 2015 states that " An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)" of the said Act. It has been observed over years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

In the overall office wide planning, I assessed risks of inadequate release of funds, and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities.

Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

Based on the procedures performed, I observed that management in the year under review paid out a total of UGX.987,344,450 in respect of NSSF arrears relating to Financial year 2016/2017 but were not budgeted for in 2017/2018 estimates.

Payment of domestic arrears without a budget line exposes the entity to the risk of diverting funds intended for the implementation of approved activities.

In response, the Accounting Officer attributed the domestic arrears to the unpaid 10% NSSF which was as a result of the enhancement of salaries without the corresponding non-wage increment to cater for staff social security savings.

I advised Management to always plan and budget for domestic arrears to avoid diversion of funds intended for implementation of planned activities

- **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 procedures performed, I observed that, the School had accumulated domestic arrears to a tune of UGX.10,793,305,009 by the end of the financial year 2017/2018 and this had risen from UGX.6,450,597,500 in 2016/2017 and UGX.3,874,450,883 in 2015/2016 representing 179% increment over the three years.

The outstanding arrears amount is significant, and poses risks of litigation and related costs to the School. Included in the arrears is UGX.3,156,680,976 payable to Uganda Consolidated Fund which resulted from the School's failure to transfer back all the money advanced from UCF.

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 was advised to ensure sufficient budget provisions are made to cater for settlement of outstanding domestic arrears, and to strictly adhere to the government commitment control system to avoid risk of overcommitting government.

Other Matter

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

- **Un- remitted functional fees to Makerere University**

At the inception of Makerere University Business School (MUBS), it entered into an agreement with Makerere University to share functional fees collected from the MUBS students on the basis of given ratios as shown in the table below:

Fees Category	Under graduate	Post graduate
Examination Fees	35% of 60%	25%
Registration fees	65% of 60%	55%
Identity cards	100%	100%
Administration fees	0	50%

A review of revenue records availed revealed that Makerere University issued a demand note to MUBS on 29th May, 2017 for the arrears of functional fees totaling UGX.5,249,625,646 for the period 2012/2013 – 2016/2017, which was disputed by MUBS. A technical Committee established in August, 2017 by both parties, reconciled and arrived at a figure of UGX.1,288,315,627. It was also noted that Makerere University was demanding UGX.3,194,566,368 as at 30th June, 2018.

To date, the reconciled payables due to Makerere University have not been cleared.

Failure to settle the reconciled payables, exposes MUBS students to the risk of being denied opportunity to graduate.

The Accounting Officer explained that, the technical committee agreed on the reconciled figure and stated that Makerere University management later changed the sharing formula without consulting MUBS and this resulted into a discrepancy. Further discussions were however on going to reconcile the matter.

I advised management to engage with Makerere University management to have the matter resolved conclusively.

- **Failure to honor Bonding Agreements by Government Sponsored Staff**

Review of the bonding agreements signed by staff sponsored by the School revealed that, staff sponsored for PhD programs were bonded for 4 years, master's program 3

years, while Bachelors, Post graduate Diploma, Diploma and certificate programs were bonded for 2 years. I however observed that the School spent a total amount of UGX.923,822,304 being salaries and other training costs on staff who later left the service of MUBS without serving the university the required bonding period. I further observed that Council failed to effect recovery from the affected staff all costs of training and salary paid during the study leave.

As a result the University Council lost funds totaling to UGX. 923,822,304 .

Management said that letters of reminder had been written to the concerned staff and the refunds are awaited. Management also said that some staff had gone out of the country.

I advised the Accounting officer to consider initiating legal action and also use Uganda Missions abroad as an additional measure to have the refunds made.

- **Irregular Contracts of employment**

Section 8.2.2(a) of the MUBS Human Resources Manual provides that staff retirement age shall be 60 years. Section 8.2.2(c) further provides that Council, on the recommendation of Management, may extend on contract terms the appointment of any employee who has reached the retirement age. Section 2.1b(ii) states that, staff eligible for appointment on contract terms are Professors and Associate Professors who have reached the mandatory retirement age of sixty (60) years and whose services are still needed

However, I noted that the school paid a total amount of UGX. 259,964,007 to staff who had reached the retirement age and did not qualify for extension of employment contracts.

Payment of Salary to ineligible staff is irregular.

The Accounting Officer stated that, when an academic staff attains the statutory 60 years of age, he/she applies for a 2-year contract through the immediate supervisor, who in turn recommends to Management and Council, in case s/he is still interested in serving the Institution and if his/her skills are still required.

Management should institute controls to ensure that only properly contracted staff are paid. Meanwhile the payments irregularly made are recoverable.

- **Non recovery of Utility Costs From Contractors**

Review of the IFMS payments file for 2017/2018 showed that, consumption of water and electricity went up by UGX.392,294,857 compared to the financial year 2016/2017. Further investigation revealed that this was due to on-going construction works which use water and electricity. However, I was not provided with evidence to show that the contractors made payments for the utilities consumed.

Details showing comparative expenditure are as shown in the table below:

Utilities	Expenditure 2017/18	Expenditure 2016/17	Difference
Electricity	523,069,221	380,313,275	142,755,946
Water	484,277,621	234,738,710	249,538,911
TOTAL	1,007,346,842	615,051,985	392,294,857

There is a possibility that the School is meeting utility costs on behalf of the contractors without making relevant deductions while computing their payments, occasioning a financial loss of UGX.392,294,857.

Management explained that these contractors were still on site and would recover the outstanding amounts from the subsequent payments.

I advised management to ensure that utilities used by contractors are paid for to avoid losses to the school.

- **Understaffing**

Review of the staffing status of the school revealed that out of the 2,551 approved posts for the School, only 1034 (40%) were filled leaving 1,517(60%) posts vacant.

A review of the structure revealed that, the category of academic staff was the most affected with only 32% of the posts filled. The analysis below refers;

Academic Staff Establishment			
Position	Establishment	Filled as at September 2018	Vacant as at September 30, 2018
		No	No
Principal	1	1	0
Deputy Principal	1	0	1
Professor (<i>Academic</i>)	101	3	98

Associate Professor	201	10	191
Senior Lecturer	302	54	248
Lecturer	604	322	282
Assistant Lecturer	201	46	155
Teaching Assistant/ Instructors/ Demonstrator	201	81	120
Sub-total	1,612	517	1095

Lack of sufficient staff numbers increases workload on the existing staff and may impact negatively on the School's ability to effectively deliver on its mandate.

Management explained that efforts were being made with the relevant authorities to ensure that the gaps are reduced. Management further explained that budget constraints and the ban on recruitment were other challenges.

I advised the Accounting Officer to engage the relevant authorities to ensure that the staffing gaps are accordingly filled.

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 Makerere University Business School.

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 University's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Makerere University Business School, 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 University'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 University'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 University'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 Makerere University Business School 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:

Except for the matters raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on the financial statements, 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.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Inadequate fund allocation to the Library**

I noted that the School only allocated UGX.321,327,000 for purchase of books and periodicals representing 0.4% of the total budget of UGX.74,808,807,000 and actually expended only UGX.198,997,225 (0.28%) of actual expenditure of UGX.70,911,516,890 .

Management said that, with a limited envelop, priority is given to the fixed payments such as salaries, utilities, student's food and LOAs, staff allowances, and staff development.

Insufficient funding to the Library limits the School's ability to facilitate growth in the existing and newly developed areas of study and research.

I advised management to ensure that adequate funding is availed to the library in line with the UOTIA regulations.

- **Award of Contract in Foreign Currency**

On April 10th, 2017 Ref BPD86/150/01, the Permanent Secretary/ Secretary to the Treasury issued a circular to all Accounting Officers and heads of public corporations and state enterprises communicating a directive by His Excellence the president of Uganda not to award contracts in foreign currency.

It was however noted that, the School awarded a contract worth UGX.163, 793,620 to Research and Education Network for Uganda for provision of internet in United

States Dollars (USD) in contravention of the directive. It was also noted that the invoices were also made in USD.

Management explained that Research and Education Network for Uganda (RENU) was formed by public universities to support internet bandwidth at low prices. They agreed to charge in dollars to hedge against losses when converting shillings into dollars since they are not profit making.

Awarding contracts in foreign currency increases contract costs due to foreign exchange rate differences.

I advised management to implement the presidential directive of awarding the contract only in Uganda Shillings so as to avoid the incidental costs that eventually increase the contract costs.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

15th December, 2018

