



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT FOR THE YEAR
ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

BFP	Budget Framework Paper
GDP	Gross Domestic Product
GKMA	Greater Kampala Metropolitan Area
GOU	Government of Uganda
ICT	Information and Communication Technology
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
IT	Information Technology
LIS	Land Information System
MPS	Ministerial Policy Statement
MOFPED	Ministry of Finance, Planning and Economic Development
MOLHUD	Ministry of Lands, Housing and Urban Development
NDP	National Development Plan
NITA-U	National Information Technology Authority-Uganda
PFMA	Public Finance Management Act, 2015
PS/ST	Permanent Secretary / Secretary to Treasury
SMART	Specific, Measurable, Attainable, Realistic and Time bound
UGX	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS
OF MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT FOR THE YEAR
ENDED 30TH JUNE 2018 AND COMPLIANCE MATTERS**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Ministry of Lands, Housing and Urban Development (MOLHUD) for the year ending 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of Ministry of Lands, Housing and Urban Development 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 Statements section of my report. I am independent of the Ministry 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 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 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.

- **Delayed settlement of 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 non-produced assets (land), 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 an amount of UGX.26,137,236,335 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament and consequently, there has been an increase in domestic arrears during the year from UGX 9,196,370,001 in the prior year to UGX.31,031,981,001 (an increase of UGX.21,835,111,000 (237%). The increase was mainly in relation to revaluation of ranches due to delayed settlement of the ranchers' compensation claims dating as far back as 2005 (a delay of 13 years). This makes the trend unsustainable and I further observed that there was no budget provision for settlement of domestic arrears totalling to UGX 4,302,125,335 implying that funds for

other planned activities were diverted for settling the obligations. Also noted was that the Ministry did not have set criteria or guidelines to be followed in settling ranchers' claims as this was done haphazardly rather than following "first come first serve" basis. This has caused further escalation of compensation costs (domestic arrears) through litigation which may not be sustainable.

The increase in 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 explained that accumulation of domestic arrears was due to inadequate resources for their settlement; litigation by some claimants including those who had been fully paid leading to revaluation of some ranches on orders of court. In view of the court decision, H.E the President issued a directive to revalue all ranches in order not to disadvantage ranchers who had been paid lower values.

I advise the Accounting Officer to ensure that 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.

- **Budgeting and Budget implementation**

Due to increasing demands for transparency and accountability from stakeholders, governments are continually challenged to demonstrate better performance and management of public resources. The Public Finance Management Act 2015, Section 13 (1) and (2) requires preparation of a National Budget in consultation with stakeholders. Section 13 (6) requires that the annual budget is consistent with the National Development Plan.

Further, Section 21(1) of the Public Finance Management Act entrusts the Accounting Officers with the responsibility of planning and managing the entity activities as indicated in the policy statement of the votes based on the annual cash flow plan issued by the Secretary to Treasury during budget execution. Budget estimates are based on outputs to be achieved for the financial year and during implementation, effort should be made to achieve the agreed objectives or targets of the entity within the availed resources.

During my review of the Government budgeting and budget implementation for the financial year ended 30th June 2018, I observed the following as regards the Ministry of Lands, housing and Urban Development:

- **Non-alignment of the Ministry budget with the NDP II**

- Whereas the outcome indicator targets are clearly annualized in the NDPII results framework, there are hardly any targets indicated in the (Ministerial Policy Statement) MPS and BFP (Budget Framework Paper) which makes it difficult to make a comprehensive budget performance audit. The budget instruments ought to address the NDPII sector targets.
- There is low absorption on the part of the Ministry of Lands, Housing and Urban Development. This may be attributed to the long procurement processes and contractual challenges that cause delays.
- The Real Estates Relators continue to go unregulated despite their contribution to the urban sprawl. There is need for a Relators Regulators Registration Bill to regulate the activities of the real estate relators by registering and licensing brokers, agents and provide them with a code of conduct.
- Despite the country's rapid urbanization (population growth rate of 5.2 percent) that has created several challenges; the annual budget does not holistically cater for dealing with urbanization challenge. The current urbanization trend is characterized by congestion, informal settlements and slums, poor infrastructure and services, uncontrolled sprawl, a costly business environment, and a huge informal sector indicating that urban planning has not kept pace with the rapid population growth. The Greater Kampala Metropolitan Area (GKMA) alone contributes over 31.2% to the GDP amidst these challenges. There is need for more effort in order to harness the benefits of planned urbanization to propel the country to a faster growth path.

The non-alignment of the Ministry budget to the NDP II leads to non-implementation of vital investment projects or investment priority areas set out in the NDP II that are critical for the attainment of the national vision of 'Growth, Employment and socio economic transformation for prosperity' within 30 years. This may impact on the government efforts to achieve the projected average annual GDP growth rate of 6.3% over the NDP period.

The Accounting Officer explained that the Ministry was in the process of developing a Real Estate and Management Bill to regulate the Real Estate Industry and procurement of a Consultant was underway. The Ministry also developed the National Urban Policy (which was approved by Cabinet in June 2017) to guide organized urbanization in the Country, however budgetary inadequacy has hampered its implementation.

I advised the Accounting Officer to compare the planned activities in the annual budget with the National Development Plan to ensure that they are well aligned. I also advised the Accounting Officer to lobby MOFPED for additional funding to facilitate implementation of its planned activities.

- **Failure to achieve the planned/ intended outputs**

Examination of the Ministry's accounting records revealed that the Ministry set out to achieve a number of activities in order to fulfil its mandate. Audit however noted that whereas some activities were partially implemented, others were completely not implemented. For instance, out of the planned 50,000 certificates of title only 15,144 were processed and issued; out of the planned 25,000 properties, only 15,867 were valued; the revised land regulations were not approved and the National Land Policy (NLP) was not disseminated to districts as planned.

I explained to the Accounting Officer that failure by the Ministry to implement its planned activities hinders the achievement of its overall objective of land management in the country.

Management acknowledged the anomaly and expressed its commitment to making realistic plans as well as prioritization of activities that support the core mandate of the Ministry. Management also undertook to engage Ministry of Finance, Planning and Economic Development (MoFPED) to provide adequate funds for implementation of its mandate.

I wait the outcome of management commitment as well results of its interaction with MoFPED.

- **Immeasurable and non – time bound target activities /outputs**

Review of the Ministry's performance report and Ministerial Policy Statement indicated that some of the Ministry's planned objectives, activities / outputs did not

have quantified key output indicators and measurable targets rendering them non – specific. For instance, the Ministry set out to establish development forums in municipalities but no quantity or number of municipalities was specified; the ministry also planned to train male and female staff in land and property valuation but the number of trainees was not specified. This is contrary to characteristics of good strategic goals and objectives which require them to be Specific, Measurable, Attainable, Realistic and Time bound (SMART).

Lack of SMART targets/ objectives / activities renders it difficult to assess the level of performance of the Ministry and/or determine the levels of success in attainment of the overall goals/ objectives.

I advised management to set activities/ goals and objectives that are measurable and attainable in its strategic and annual plans.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters disclosed in the financial statements that, in my judgement, are of such importance and fundamental to users’ understanding of the financial statements.

- **Mischarge of Expenditure**

A sum of UGX.202,140,410 was charged on codes other than those for which funds were appropriated leading to mischarge of expenditure contrary to the GoU Chart of accounts and paragraph 4 (d) of the Accounting Officer’s appointment letter which requires Accounting Officers to use financial and other resources for the purposes for which they were voted.

The practice undermines the intentions of the appropriating authority and leads to preparation of misleading financial statements. Management explained that the mischarges were due to inadequate funding, errors in description of expenditure and budgeting oversights.

I advised the Accounting Officer to liaise with MoFPED to ensure that adequate funds are allocated to the budget items and always seek proper authority for re-allocations.

Other Matters

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

- **Funds not accounted for**

A sum of UGX.114,875,000 was expended on various activities by the Ministry but the funds remained un-accounted for by the time of audit contrary to Section 45 (2) of the Public Finance management Act (PFMA), 2015, which requires Accounting Officers to put in place effective systems of risk management, internal control and internal audit in respect of all resources and transactions of a vote. In the absence of the accountabilities, it was difficult to confirm whether the funds were used for the intended purposes. Delayed accountability may result into falsification of documents.

Management took note of the audit observation and pledged to enforce timely submission of accountability documentation henceforth.

I advised management to ensure that the funds are accounted for or recovered from the concerned officers without further delay.

- **Revenue Shortfall**

The Ministry had an approved revised budget of UGX.87,587,613,316 but only UGX.68,364,555,397 was released resulting into a shortfall of UGX.19,223,057,919 representing 22.0%:

Underfunding stifles implementation of planned activities and leads to failure by the Ministry to deliver its mandate or achieve its goals and objectives. Management acknowledged that the Ministry received only 78% of its appropriated budget but attributed it to under release of funds (cash limits) by MoFPED.

I advised management to liaise with MoFPED to ensure that all budgeted funds are released to the Ministry to enable full implementation of planned activities.

- **Staffing gaps**

A review of the Ministry's staff establishment revealed that out of 839 approved positions, only 601 positions were filled leaving 238 positions vacant representing a staffing gap of 28%.

The unfilled positions included 104 key personnel in the various departments of the Ministry such as Commissioners and Assistant Commissioners in the departments of Housing development and estates; Land use regulation and compliance; Land administration; Physical planning; urban planning and development among others.

I explained to the Accounting Officer that lack of key staff in the Ministry's key departments affects the performance and overall achievement of the Ministry's goals and objectives. In addition, the existing staff may be overworked leading to staff demotivation and probable staff turnover.

Management explained that due to restriction (cap) on recruitment, requests to Ministry of Finance for additional wage to enable recruitment of more staff have not been honoured.

I advised management to continue engaging Ministry of Finance as well as Ministry of Public service to ensure that the vacant positions are filled.

- **Lack of IT Strategic plan and ICT Management Arrangements**

Though the Ministry manages a Land Information System (LIS), it did not have an IT strategic plan and lacked critical ICT Management arrangements such as IT Steering Committee contrary to the Ministry's strategic objective of increasing availability, accessibility and affordability of land information for planning and development. The practice is also contrary to NITA-U guidelines for operation, usage and management of IT infrastructure in MDAs & Local Governments, 2013 which provide for operating IT equipment in a manageable and sustainable manner through strategic planning.

Under the circumstances, the ministry's IT objectives as well as the overall Government ICT objectives may not be achieved. Besides, the ministry's IT equipment remains susceptible to IT related risks such as un-authorized access among others.

Management noted the audit recommendations and pledged to formulate an IT strategic plan adding that arrangements had been put in place to ensure that NITA-U guidelines are complied with.

I await the outcome of management undertaking 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.

The Accounting Officer is responsible for the preparation of the 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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of the mandate of the Ministry, and using the Financial Reporting Guide 2018 unless the Accounting Officer has realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Ministry'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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of Directors' 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 Ministry's ability to continue as a going concern. 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 Ministry 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, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

13th December, 2018