IMPROVEMENT OF HEALTH SERVICE DELIVERY IN MULAGO HOSPITAL AND IN THE CITY OF KAMPALA PROJECT (MKCCAP)

IDA CREDIT NO.4531-UG

REPORT AND OPINION OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

OFFICE OF THE AUDITOR GENERAL
UGANDA
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table of Contents</td>
<td>i</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>ii</td>
</tr>
<tr>
<td>Detailed Report of the Auditor General for the Financial Year</td>
<td>3</td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td>3</td>
</tr>
<tr>
<td>2.0 Background to the Project</td>
<td>3</td>
</tr>
<tr>
<td>3.0 Project Objectives</td>
<td>3</td>
</tr>
<tr>
<td>4.0 Audit Scope</td>
<td>4</td>
</tr>
<tr>
<td>5.0 Procedures Performed</td>
<td>5</td>
</tr>
<tr>
<td>6.0 Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
</tr>
<tr>
<td>CRMU</td>
<td>Compliance Review and Mediation Unit</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>KCCA</td>
<td>Kampala City Council Authority</td>
</tr>
<tr>
<td>MNRH</td>
<td>Mulago National Referral Hospital</td>
</tr>
<tr>
<td>MoH</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>NTF</td>
<td>Nigeria Trust Fund</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
</tr>
</tbody>
</table>
IMPROVEMENT OF HEALTH SERVICE DELIVERY IN MULAGO HOSPITAL
AND IN THE CITY OF KAMPALA PROJECT (MKCCAP)

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

THE RT. HON. SPEAKER OF PARLIAMENT
I have audited the accompanying financial statements of the Improvement of Health Service Delivery in Mulago Hospital and in the City of Kampala Project (MKCCAP) for the year ended 30th June 2014. These financial statements comprise of the Statement of Financial Position as at 30th June 2014, Statement of Income and Expenditure, Detailed Schedule of Expenditure by Project Component and Category together with other accompanying statements, notes and accounting policies.

Management Responsibility for the Financial Statements
The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintenance of such internal controls that are necessary for the fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility
My responsibility as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor’s judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity’s preparation and fair presentation of financial statements in order to design audit
procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Part "A" of my report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

**PART "A"**

**Opinion**

In my opinion, the financial statements fairly present in all material respects the financial position of the Improvement of Health Service Delivery in Mulago Hospital and in the City of Kampala Project as at 30th June 2014 and the income and expenditure for the year then ended in accordance with the basis of accounting described under Note 2 to the Financial Statements.

John F.S. Muwanga

**AUDITOR GENERAL**

24th December 2014
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL FOR THE FINANCIAL YEAR

This section outlines in detail the audit scope, audit findings, my recommendations and management responses in respect thereof.

1.0  **INTRODUCTION**

I am mandated by Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), to audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the above project to enable me report to Parliament and the Development Partners.

2.0  **BACKGROUND TO THE PROJECT**

The Improvement of Health Service Delivery in Mulago Hospital and in the City of Kampala Project (MKCCAP) is a project designed to increase access to quality and affordable health care services for the population of Kampala Metropolitan Area (which encompasses the City of Kampala and the surrounding Districts). The project cost is estimated at Unit of Account (UA) 56 million, financed by African Development Fund (ADF) Loan of UA 46 million and Nigeria Trust Fund (NTF) Loan of 10 million. The project which is to be implemented in 54 months centers on three broad components namely;

1. Capacity development and systems strengthening;
2. Revitalized referral and counter referral systems and
3. Expanded improved health facilities and services.

3.0  **PROJECT OBJECTIVES**

The project objectives under each broad component include:-

3.1  **Capacity development and systems strengthening**

- Improving management and administration of health services in Mulago Hospital, Ministry of Health and Kampala City Council Authority (KCCA);
- Provision of ICT for human resource management and financial management;
- Supporting training of staff in leadership and management;
• Clinical excellence, ethics and customer care;
• Support to medical education and research capacity of Mulago Hospital and Makerere University College of Health Sciences and
• Development of hospital governance framework and human resource for health performance tools.

3.2 **Revitalized referral and counter referral systems**
Establishing a well-coordinated referral and counter referral system in Kampala Metropolitan area.

3.3 **Expanded improved health facilities and services**
• Development of a master plan for Mulago Hospital to rationalize service delivery and improved efficiency and effectiveness.
• Extensive rehabilitation and modernization of lower Mulago Hospital Complex.
• Construction of two new general referral hospitals in Kawempe and Makindye (Kiruddu) including staff accommodation for critical staff managing emergencies and maternity services.
• Providing medical equipment and furniture and ICT network, equipment and software for patient, administrative and financial management systems to Mulago, Kiruddu and Kawempe Hospitals.

4.0 **AUDIT SCOPE**
The audit was carried out in accordance with the International Standards on Auditing and accordingly included a review of the accounting records, agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:-

a. The Financial Statements for MKCCAP have been prepared in accordance with consistently applied International Accounting Standards (IAS) and that they present fairly the financial performance and position of the project as at 30th June 2014.
b. Sufficient internal controls have been applied consistently throughout the year to safeguard the assets of the project and mitigate the risk of misstatement of the financial statements.
c. All necessary supporting documents and records have been maintained and are in agreement with the financial statements presented.
d. Goods and services have been procured in accordance with relevant financing agreement and Government of Uganda (GoU) procurement regulations.

e. Project funds are managed in compliance with the covenants contained in the financing agreement as well as GoU financial regulations.

5.0 PROCEDURES PERFORMED

1) **Revenue/Receipts**
   Obtained schedules of funds provided by the development partners and Government of Uganda and reconciled the amounts to the entity’s cashbooks and bank statements.

2) **Expenditure**
   Vouched transactions to establish whether documentation in support of the expenditures agreed with the amounts and descriptions on the vouchers; reviewed and reconciled the bank statement transactions to test for occurrence and whether they were properly controlled and accounted for.

3) **Internal Control System**
   Reviewed the internal control system and its operations to establish whether the controls were sound and were applied throughout the period under review.

4) **Procurement**
   Reviewed the procurement of goods and services under the Project during the period under review and reconciled with the approved procurement plan.

5) **Periodic reports of the project**
   Reviewed the Agreement provisions, operational manual, aide memoires and reports and reconciled them with the Project activities during the period under review.

6) **Entity Financial Statements**
   Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.
6.0 AUDIT FINDINGS

6.1 Funds disbursement

According to the Loan Agreement, the MKCCAP project whose total funding is Unit of Account (UA) 56 million\(^1\) is supposed to run for a period of 5 years (2012 - 2016), with the last (disbursement expected by 31\(^{st}\) December 2016). However, a review of the project income and expenditure revealed that the cumulative project expenditure as at 30\(^{th}\) June 2014 was USD.7,977,440 representing 14% of the total expected project funding. Given the low rate of funds disbursement and activity implementation, it is highly doubtful that the project will achieve its intended objectives within the remaining project period.

Management attributed the delays to the fact that most of the project resources (about 86%) were allocated to civil works and procurement of hospital equipment and furniture, and the hospital civil works had to go through elaborate African Development Bank (ADB) and GoU procurement processes to identify contractors before funds could be disbursed. Management explained that the disbursement of funds would soon greatly improve.

I have advised management to hasten the implementation of activities so as to improve the disbursement of funds and thus attainment of the project objectives within the remaining project period.

6.2 Delays in development of Master Plan for Mulago Hospital

A Contract to develop a 30 year master plan for Mulago National Referral Hospital was awarded to a consultant at a cost of USD.369,900. A payment of USD.73,980 was made during the year.

A review of the Aide Memoire of July 2014 showed that the initial contract for the consultancy expired on 30\(^{th}\) November 2013 and a-no-cost extension was granted up to 30\(^{th}\) April 2014. The contractor however, could not produce the final report by the due date but only submitted a final draft in July 2014. However, by the time of this report December 2014, not all deliverables of the consultancy had been concluded. There is a risk that the consultants may not be able to deliver on all the aspects of the contract.

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\(^1\) African Development Fund loan of UA 46 million and Nigeria Trust Fund loan of UA 10 million
Management attributed the delays to the consultant and the delayed feedback from clients because of the many stakeholders that had to be consulted. Management further explained that the Bank Supervision Mission had advised GoU to seek for No Objection for the extension of completion time.

I have advised project management to review the progress of the consultant and ensure that the process is expedited to ensure completion of the task. Meanwhile I await the action of management as far as seeking for a No Objection is concerned.

6.3 **Failure to meet the Bank’s conditions**

a) **Uganda legislation and public policy concerning public private partnerships**

A review of the project documents and the Aide Memoire of July 2014 showed that the project did not meet a number of the conditions as specified in the Loan Agreement. These include:-

- Submitting a Memorandum by the Ministry of Health (MoH), Mulago Hospital and Makerere University in form and substance acceptable to the Fund, clarifying roles and responsibilities of the three institutions by 31st December 2012”.

- Submitting to the Fund for review and approval, prior to execution, any contract that is entered into by the MoH and the selected service provider, for the management of the Ambulance referral system in the city of Kampala and provide written confirmation that any contract entered into by MoH for the purposes of the ambulance referral system in the city of Kampala, is in accordance with the Republic of Uganda’s legislation and public policy concerning public private partnerships by 31st July 2013.”

The above conditions which had not been met by the time of audit could result in withholding of funding for the project and thus lead to stalling of implementation of the project activities.

Management acknowledged the anomaly and explained that Work on the MOU had already started and a draft had been prepared. Management added that since the time of the loan agreement, GoU had realized that it needed to prepare one MoU between MoH, the 5 Universities with Medical Schools and the respective teaching hospitals. The above process was on-going and was expected to be finalized by March 2015. Due the wider stakeholder consultations, the process had taken longer than expected.
I have advised the project management to address the impediments so that the Bank’s condition as of developing legislation and public policy concerning public private partnerships is met.

6.4 **Status of Implementation of Mission Recommendations**

A review of the project documents and the Aide Memoire of 18th-24th July 2014 revealed that the activities below were still pending implementation due to procurement technicalities.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendation Actions</th>
<th>Expected Implementation time line</th>
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<tbody>
<tr>
<td>Procurement of 10 Ambulances</td>
<td>Review specifications and re-advertise tenders for Ambulances</td>
<td>By 31st July 2014</td>
</tr>
<tr>
<td>Referral and Ambulance system</td>
<td>Submit proposal and budget details from IFC to the Bank</td>
<td>31st July 2014</td>
</tr>
<tr>
<td>Procurement of the project vehicle</td>
<td>Submit request for the bank consideration</td>
<td>Immediately requested for</td>
</tr>
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The failure to act upon the recommendations of the Bank Supervision Mission may have a negative impact on attainment of the overall project objectives.

I have advised management to always implement the recommendations of the Bank Supervision Mission as agreed for better and smooth project implementation.

6.5 **Land dispute at Kawempe**

A review of the Aide Memoire and other project documents indicated that the project was undertaking construction of a General Referral Hospital in Kawempe but on a disputed piece of land.

The Accounting officer explained that the Banks Compliance review and Mediation Unit (CRMU) undertook a fact finding mission in Uganda to meet all the relevant stakeholders, including KCCA, Minister of Health, the Permanent Secretary MoH, Solicitor General and the complainants. It was however noted that at the time of this report (December 2014), the matter had not been fully addressed. The progress of the works was likely to be interrupted should the complainants opt to take legal action.

The project management explained that the matter was being handled amicably with the claimant in order to have it resolved and enable the hospital construction works to continue. Two meetings attended by key stakeholders had been held with the claimants.
The Ministry of Lands had provided documents from the Land Registry that clearly showed KCCA as the rightful owner of the Land on which the hospital was being constructed.

I await the outcome of the on-going actions towards resolving the land dispute.

6.6 **Asset Management**

a) **Marking/ engraving of Assets**

Regulation 101 of the Public Finance and Accountability Regulations 2003 (PFAR) requires all assets to be appropriately marked or engraved to ensure that they are easily identifiable as Government assets. It was however noted that the project owns a number of assets such as furniture, computers and office equipment valued at UGX.67,450,000 and USD.45,644.05 respectively that have not been engraved. Failure to engrave the assets exposes them to a risk of loss without trace.

Management acknowledged the anomaly and committed to engrave all project assets by January 2015.

I await management’s actions on the commitment of engraving all the project assets by January 2015.