THE REPUBLIC OF UGANDA

NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS) PROGRAMME

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015
TOGETHER WITH THE REPORT OF THE AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL
UGANDA
TABLE OF CONTENTS

LIST OF ACRONYMS...........................................................................................................iii
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS ...............iv
OF NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS) FOR THE YEAR ENDED
30TH JUNE 2014...........................................................................................................iv
1.0 INTRODUCTION ......................................................................................................... 1
2.0 PROGRAMME BACKGROUND ................................................................................. 1
3.0 AUDIT OBJECTIVE .................................................................................................. 2
4.0 AUDIT PROCEDURES PERFORMED ........................................................................ 4
5.0 FINDINGS ..................................................................................................................... 5
5.1 CATEGORIZATION AND SUMMARY OF FINDINGS .................................................. 5
5.2 Categorization of findings .......................................................................................... 5
5.3 Summary of Findings.................................................................................................. 5
6.0 DETAILED FINDINGS................................................................................................ 6
6.1 Late preparation of financial statements................................................................. 6
6.2 Record keeping............................................................................................................ 6
6.3 Mischarge of expenditure............................................................................................ 7
6.4 Tea Intervention Project ............................................................................................ 7
6.4.1 Payments to Lead agencies .................................................................................... 7
6.4.2 Deliveries outside contract period ......................................................................... 7
6.4.3 Supply of tea seedlings in Zombo and Nebbi districts ......................................... 8
6.5 Commitments through Local Letters of Credit at the year-end............................... 8
6.6 Recording of fixed assets at the districts................................................................. 10
6.7 Cash and bank balances............................................................................................ 10
6.7.1 Un-reconciled cash balances ............................................................................... 10
6.7.2 Unaccounted for funds transferred to the districts............................................... 11
6.8 Unaccounted for funds advanced to staff ............................................................... 11
6.9 Irregular payment of legal costs................................................................................ 11
6.10 Absence of verification of inputs on delivery......................................................... 12
6.11 Management of Payroll........................................................................................... 12
6.12 Payment of terminal benefits .................................................................................. 13
6.13 Un-Spent cash and bank balances at districts......................................................... 15
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAADS</td>
<td>National Agricultural Advisory Services</td>
</tr>
<tr>
<td>ATAAS</td>
<td>Agricultural Technology and Agribusiness Advisory Services</td>
</tr>
<tr>
<td>EAAPP</td>
<td>East African Agricultural Productivity Project</td>
</tr>
<tr>
<td>BOU</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>AASP</td>
<td>Agricultural Advisory Services Providers</td>
</tr>
<tr>
<td>NARO</td>
<td>National Agricultural Research Organisation</td>
</tr>
<tr>
<td>SESA</td>
<td>Strategic Environmental and Social Assessment</td>
</tr>
<tr>
<td>CBF</td>
<td>Community Based Facilitators</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
</tbody>
</table>
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS) FOR THE YEAR
ENDED 30TH JUNE 2014

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the National Agricultural Advisory Services (NAADS) Programme for the year ended 30th June 2015. The financial statements which are set out on pages 5 to 39 comprising of;

- Statement of Financial performance
- Statement of Financial Position
- Cash Flow Statement
- Notes to the financial statements including summary of significant accounting policies adopted.

Management’s Responsibility for the financial Statements

Management is responsible for the preparation and fair presentation of the Programme financial statements in accordance with the modified Cash receipts and payments basis of accounting and the terms of Memorandum of Understanding and for such internal controls as management determines is necessary to enable the preparation and fair presentation of the Project Financial Statements that are free from material misstatements whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA). Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor’s judgment, including the assessment of the risks of material misstatements 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 the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**PART “A”**

**Basis for Qualified Opinion**

- **Misstatements in the financial statements**
  Management did not properly maintain accounting records. Payments made from the NAADS Basket Account amounting to UGX.32 billion were not coded, posted to accounting ledgers, and the comparative figures for 2013/14 financial year did not include the cash and bank balances of UGX.1,308,055,000 that existed at 30 June 2014. The cash and bank balances disclosed in the financial statements are misstated.

- **Misclassification of expenditure**
  I noted a misclassification expenditure on the account code for medical and agricultural supplies to a tune of UGX.5,912,977,609. The expenditure did not relate to Agricultural supplies and as such the expenditure on provision of inputs is overstated.

- **Unsupported expenditure**
  I noted unsupported expenditure amounting to UGX.15,618,889,949. This was in respect of the supply of tea seedlings (UGX.11,815,201,310), unsupported other payments (UGX.1,958,227,404), Secretariat expenses (UGX.331,881,000) and district expenditure (UGX.1,513,580,235). As such, I was unable to confirm that the expenditure was for intended purposes.

**Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of National Agricultural Advisory Services Organisation for the year ended 30th June 2015 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015 and the Financial Reporting Guide, 2008.

John F.S. Muwanga

**AUDITOR GENERAL**

**KAMPALA**

29th December 2015
REPORT OF THE AUDITOR GENERAL AND SUPPLEMENTARY INFORMATION
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS) PROGRAMME FOR THE YEAR ENDED 30TH JUNE 2015

This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and 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. In accordance with the same provisions I appointed Team & Co Certified Public Accountants to carry out the audit on my behalf and report to me on the above Project to enable me report to Parliament.

2.0 PROGRAMME BACKGROUND

The Government of Uganda (GOU), through the National Development Plan (NDP) aims at raising agricultural incomes through increased productivity and value addition. The Development Strategy and Investment Plan (DSIP) of the Ministry of Agriculture and Animal Industry and Fisheries (MAAIF) have been designed within the framework of NDP to guide sectorial growth. The DSIP seeks to transform substance farming into commercial agriculture. Agricultural research and advisory services are core mandates of MAAIF for enhancing agricultural production and productivity among others. For this purpose the Government of Uganda established the National Agricultural Advisory Services Organization.

The National Agricultural Advisory Services (NAADS) is a statutory organization that was established by an act of parliament in 2001. Section 5 of the NAADS Act 2001 sets out the seven (7) objectives of the organization, which are to;

- Promote food security, nutrition, and household incomes, through increased productivity and market oriented farming;
- Empower all farmers to access and utilize contracted agricultural advisory services;
- Promote farmer groups to develop capacity to manage farming enterprises;
• Create options for financing and delivery of agricultural advice for the different types of farmers, but with emphasis on subsistence farmers, particularly women, youth and people with disabilities;
• Gradually shift from public delivery to private delivery of agricultural advice;
• Develop private sector agricultural advisory delivery capacity and systems and assure quality of advice;
• Catalyse the participation of the private sector to fund agricultural advisory services.

During the period under review, The Government through the Cabinet gave a directive that implementation of NAADS be changed from the ATAAS project mode of provision of Agricultural extension services to GOU distribution of inputs. Implementation of NAADS activities therefore ceased and all NAADS personnel in the Local Governments were terminated. All funds that had been allocated to the Local governments for FY 2014/2015 were rechanneled by a corrigenda to the NAADS Secretariat. The budget for the Secretariat increased from 71.669 billion to a budget of Shs.204 billion. Of this budget UGX.160.702 billion was disbursed through the IFMS/Single Treasury Account, UGX.32,824,124,000/= was disbursed through the project Basket account and UGX.10,924,922,000/= was disbursed directly to the Local Governments to meet the costs of the terminal benefits. UGX.32,824,124,000/= however had been earmarked for the LGs for quarter one release and therefore these funds have been treated in the accounts as transfers from the LGs to the NAADS Secretariat.

3.0 AUDIT OBJECTIVE
The Audit was conducted in accordance with International Standard of Auditing. The objective of the audit was to form an opinion on the financial affairs of NAADS organization for the FY 2013/2014.

3.1 At NAADS Secretariat, special attention was paid to establish the following while conducting the audit;

a) Whether designated Accounts have been maintained in accordance with the provisions of the Financing / Grant agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing / grant agreement;
b) Whether the NAADS secretariat is in compliance with the Treasury Accounting Instructions 2003, issued under the Public Finance & Accountability Act 2003 and the Public Finance Management Act 2015;

c) Compliance with the budget execution requirements at the Secretariat to budget provisions under various vote heads;

d) Whether staff claims/payments are in line with their appointments and salaries and allowances of whatever nature are claimed against proper documentation;

e) Whether advances to staff and third party individuals/institutions from the NAADS Secretariat vote were properly accounted for and properly retired;

f) Whether the management of organisation activities is in line with the approved Government of Uganda framework;

g) Whether procurement at the NAADS Secretariat had been conducted in accordance with the guidelines approved by the Government of Uganda;

h) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement. In addition, whether the Assets of NAADS are being used for organisation activities including whether vehicles are being used in the interest of the Programme or have been intercepted by senior government officials and consultants for their own routine use instead of serving the programme;

i) Whether programme reporting to both Government of Uganda and the Participating Partners is accurate and represents the affairs as at the time of the audit. Particular emphasis was made to verify the preparation and accuracy of Programme Management Reports to the stakeholders; including reconciling the quarterly IFRs submitted to the Bank to the financial statements;

j) Whether the organisation met its tax obligations, social security and other statutory obligations. Particular attention was made to verify whether these were duly deducted and remitted to the relevant authorities;

k) On a sample basis we checked the physical existence of project outputs at the beneficiary level.

l) Identification of ineligible expenditures included in withdrawal applications to facilitate refund to the financiers of the Programme.

3.2 At the participating Local Authorities special focus was given to the following areas:-
a) Review of the system in place at local authorities in relation to management of NAADS funds, operations and controls including the performance of internal audit, the local authority’s management and tender procedures;
b) Tested compliance with Local Government Act and Local Government Accounting and Financial Regulations and any other applicable laws and regulations on the transactions that local authorities undertake;
c) To identify and report on breaches of Government Regulations;
d) Undertake review of accountability of NAADS expenditure;
e) Checked the physical existence and utilisation of NAADS assets at the District and Sub-county level;

4.0 AUDIT PROCEDURES PERFORMED

a. Revenue/Receipts
   Obtained a schedule of all programme funds provided by the development parties and Government of Uganda and reconciled the amounts to the programme cash books and bank statements.

b. Expenditure
   Reviewed the Programme funding Agreement to ascertain agreed budget line activities for the Basket funding and checked whether funds had been utilized in accordance with the approved work plan;
   Vouched transactions of the programme in particular funding received and expenditures incurred during the period covered by the audit in order to establish that documentation in support of expenditure agreed with the amount and description on the payment vouchers and or applications, bank statements and was properly controlled and accounted for.

c. Internal Control System
   Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period

d. Procurement
   Reviewed procurement of goods and services for the project and reconciled with the approved procurement plan.

e. Fixed Assets Management
   Reviewed use and management of project assets during the period under review.

f. Periodic Reports about project Activities
   Reviewed the programme agreement provisions, and reconciled it to the project activities during the period under review.
g. Programme Financial Statements

Examined on a test basis, evidence supporting the amounts and disclosures in the programme financial statements; assessed the accounting principles used and significant estimates made by programme management as well as evaluating the overall financial statement presentation.

5.0 FINDINGS

5.1 CATEGORIZATION AND SUMMARY OF FINDINGS

5.2 Categorization of findings

The following system of profiling of the audit findings has been used to prioritise the implementation of audit recommendations:

<table>
<thead>
<tr>
<th>No</th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High significance</td>
<td>Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.</td>
</tr>
<tr>
<td>2</td>
<td>Moderate significance</td>
<td>Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.</td>
</tr>
<tr>
<td>3</td>
<td>Low significance</td>
<td>Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.</td>
</tr>
</tbody>
</table>

5.3 Summary of Findings

<table>
<thead>
<tr>
<th>No</th>
<th>Finding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1</td>
<td>Late preparation of financial statements</td>
<td>Moderate</td>
</tr>
<tr>
<td>7.2</td>
<td>Record keeping</td>
<td>High</td>
</tr>
<tr>
<td>7.3</td>
<td>Mischarge of expenditure</td>
<td>High</td>
</tr>
<tr>
<td>7.4</td>
<td>Tea Intervention Project</td>
<td>High</td>
</tr>
<tr>
<td>7.5</td>
<td>Commitments through Local Letters of Credit at the year-end</td>
<td>High</td>
</tr>
<tr>
<td>7.6</td>
<td>Recording of fixed assets at the districts</td>
<td>Low</td>
</tr>
<tr>
<td>7.7</td>
<td>Cash and bank balances</td>
<td>Moderate</td>
</tr>
<tr>
<td>7.8</td>
<td>Unaccounted for funds in advances</td>
<td>High</td>
</tr>
<tr>
<td>7.9</td>
<td>Irregular payment of legal costs</td>
<td>High</td>
</tr>
<tr>
<td>7.10</td>
<td>Absence of verification of inputs on delivery</td>
<td>High</td>
</tr>
</tbody>
</table>
6.0 DETAILED FINDINGS

6.1 Late preparation of financial statements

Section 51(1) of the Uganda Public Finance Management Act requires the Accounting Officer to prepare and submit the financial statements to the Auditor General by 31st August after end of financial year. However, the financial statements were submitted in December 2015. Management did not comply with the provisions of the Uganda Public Finance Management Act.

I advised management to ensure compliance with the Public Finance Management Act in regard to the preparations of financial statements.

6.2 Record keeping

I noted that the management did not properly maintain accounting records. Payments made from the NAADS Basket Account amounting to UGX.32 billion were not coded and posted to accounting ledgers, and comparative figures of 2013/14 did not include the cash and bank balances of UGX.1,308,055,000 that existed at 30 June 2014.

Management explained that the resource that was meant for District Local Governments which was transferred to the NAADS Project Account in Bank of Uganda could not be consolidated since it was not transferred to the NAADS Treasury General Account. Management has since consulted MFPED and has been advised to include the funds under transfers from other Government Units.

I advised that the transactions should be appropriately authorised, coded and posted to the accounting ledgers to enable timely preparation of financial statements.
6.3 **Mischarge of expenditure**
Parliament appropriates funds in accordance with the needs of the country and this appropriation is implemented through the budget in which funds are tagged to particular activities and outputs using account codes. I noted that expenditure totalling to UGX.5,912,977,609 was inappropriately charged to code 224001 (Medical and agriculture supplies) to fund activities that were not planned for and this was done without authority.

In their responses, management explained that NAADS mandate of extension services was changed after the budgeting process had been completed. As a result funds that were originally budgeted for operations were transferred through corrigenda to the goods and services expenditure item by the Ministry of Finance. The misclassified funds were as a result of costs associated with activities under distribution of goods and services. This financial year a budget item for management of distribution of inputs was created and this will not re occur.

I advised the Accounting Officer to streamline the budget process to ensure sufficient funds are allocated to significant account areas and should there be need for reallocation, authority for the virement should be sought before any reallocations are made.

6.4 **Tea Intervention Project**
6.4.1 **Payments to Lead agencies**
During the year, payments amounting to UGX.6,744,532,740 were made to two (2) lead agencies – i.e. UGX.4,987,748,445 and UGX.1,756,784,295. I noted that these payments were not supported by evidence of extension services provided. The payments were based on deliveries of 49,959.502 tea seedlings in Kabale, Kanungu and Kisoro districts that were not independently verified by Operation Wealth Creation officers or district staff. In absence of evidence of independently verified supplies, I could not confirm that the payments to the lead agency were for actual supplies made.

6.4.2 **Deliveries outside contract period**
NAADS Secretariat signed a contract with a local tea seedlings company on 19th June 2015 for supply of tea seedlings to farmers in Kisoro district. Supplies were undertaken and a payment of UGX.596,704,950 on 29th June 2015 for supply of 1,410,650 tea seedlings was made. However, I noted that deliveries relating to these supplies were made before the contract was signed as shown in the table below.
Further still, the supplier did not acknowledge receipt of these funds. Deliveries presented in support of the payments may not be related to the above contract.

<table>
<thead>
<tr>
<th>Date of delivery</th>
<th>Recipient</th>
<th>No. of tea seedlings</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/01/2015</td>
<td>Rugyegye Demo</td>
<td>355,080</td>
</tr>
<tr>
<td>06/01/2015</td>
<td>Nyabihonga Demonstration farm</td>
<td>700,000</td>
</tr>
<tr>
<td>08/01/2015</td>
<td>Olutolere Catholic parish</td>
<td>144,542</td>
</tr>
<tr>
<td>04/01/2015</td>
<td>Rugege Demonstration farm</td>
<td>211,026</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,410,648</strong></td>
</tr>
</tbody>
</table>

6.4.3 **Supply of tea seedlings in Zombo and Nebbi districts**

NAADS secretariat signed a framework contract with a local Seeds supplier for the supply of tea seedlings to Zombo and Nebbi districts on 5th March 2015. Two call-off orders were made on 30th March 2015 for the supply of 6,657,308 and 2,030,000 tea seedlings to Zombo and Nebbi districts respectively and all deliveries were made in April and May 2015. However, after the issue of the call-off orders, the Executive Director received a technical inspection report in which the verified mature seedlings in the districts were only 1,600,000. The supply of the 8,687,308 tea seedlings to Zombo and Nebbi districts worth UGX.4,473,963,620 is questionable expenditure.

Management in their responses explained that Under the Lead Agency arrangement, the beneficiary District Local Governments adopted an approach whereby the tea seedlings raised by the local nursery operators are planted in the gardens of the beneficiary farmers prior to contract award. This is intended to avoid over growth of the tea seedlings in the nurseries which can result from the usually protracted procurement process. During this period, the garden acts as a ‘store’ for the seedlings.

I advised the management that it is necessary to review the collaboration arrangements with the lead agencies particularly the payment basis to ensure that payments are for actual services rendered. The deliveries by the local companies should be further reviewed to ascertain that the actual number of seedlings paid for was what was delivered.

6.5 **Commitments through Local Letters of Credit at the year-end**

Funds amounting to UGX.15,510,127,219 were transferred to Bank of Uganda as commitments to open local letters of credit between 29th June and 30th June 2015. Included in the funds transferred was UGX.367,791,500 being commission for the letters of credit. The following were noted;
(a) I observed that 6 months later after the commitment of the funds for the local purchases, UGX.2,938,368,827 remained as unperformed local letters of credit while LCs worth UGX.1,680,593,664 had expired.

(b) The additional cost of UGX.367,791,500 in form of the local letters of credit commission paid to Bank of Uganda was avoidable. Such avoidable costs reduce funds meant for service delivery.

Management explained that this mode of payment was done because of increased funding for agricultural inputs for the various commodities to levels far beyond what had been earlier anticipated. This necessitated strategic procurement arrangements under framework arrangements in order to cater for contracts involving directly imported goods like motor vehicles, equipment such as milk coolers and maize mills where installation and test running required Letters of Credit arrangement facilitates. The other contracts involved procuring of agricultural inputs often restricted by rainy seasonal challenges.

I advised NAADS Secretariat to plan the procurements early enough to avoid such year-end rushes that result in a waste of resources.

(c) A further review of the correspondences between Bank of Uganda and the NAADS Secretariat revealed that record keeping in respect to Letters of Credit was not properly done. The Director Banking communicated the discrepancies between the Bank and NAADS records. *Table below refers.* Inaccurate records and the absence of ledgers to track payments to suppliers may lead to duplicate payments.

<table>
<thead>
<tr>
<th>Name of beneficiary</th>
<th>Amount in NAADS records (UGX)</th>
<th>Amount in Bank of Uganda records (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Associates Ltd</td>
<td>180,241,356</td>
<td>-</td>
</tr>
<tr>
<td>Nagric and DB</td>
<td>136,159,793</td>
<td>57,149,903</td>
</tr>
<tr>
<td>Bed Saf General Construction</td>
<td>185,000</td>
<td>59,052,000</td>
</tr>
<tr>
<td>Bed Saf General Construction</td>
<td>73,260,000</td>
<td>-</td>
</tr>
<tr>
<td>Nodic Investments</td>
<td>50,895,000</td>
<td>3,511,755</td>
</tr>
<tr>
<td>Kawaka Integrated Development Ltd</td>
<td>480,000,000</td>
<td>90,612,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>920,741,149</strong></td>
<td><strong>210,325,658</strong></td>
</tr>
</tbody>
</table>

I advised Management to maintain ledgers to track partial payments made to suppliers.
(d) I also noted that a Local Letter of Credit worth UGX.423,187,330 opened on 01/11/2013 in favour of a local company was not captured as a Letter of Credit in the previous year as well as this year’s opening balance. Inaccurate records and the absence of ledgers to track payments to suppliers may lead to duplicate payments.

I advised Management to maintain ledgers to track partial payments made to suppliers.

6.6 **Recording of fixed assets at the districts**

I carried out field inspection in the districts to confirm existence of the assets, their condition and how the assets are recorded. I observed that 111 motorcycles and motor vehicles which existed in the districts were not recorded in the Fixed Assets Register (FAR) at NAADS Secretariat. There is a risk that asset losses and misuse in the districts and sub-counties may not be detected.

Management promised to carry out a fresh verification in all Districts and Sub counties as part of preparation for handover of assets to Ministry of Agriculture, Animal Industry and Fisheries (MAAIF). This will leave MAAIF in charge of the services hitherto rendered and assets owned by NAADS Organisation in Districts.

I await management efforts on the matter.

6.7 **Cash and bank balances**

6.7.1 **Un-reconciled cash balances**

I observed cash balances at the district and sub-county of UGX.132,535,000 and UGX.621,356,000 respectively as at 30th June 2014. During the field inspections at the districts where information on bank balances was availed, I observed differing cash and bank balances of UGX.261,219,712. This was attributed to the fact that the NAADS basket account No. 00080088000106 and Treasury Single Account were not reviewed and signed off.

The cash and bank balances in the financial statements at the districts and sub-counties were thus misstated. Failure to review these reconciliations implies errors could be made without being detected and corrected.
Management acknowledged that some districts balances have not been fully reconciled. The respective Chief Administrative Officers have been communicated to have all balances on the account as at 30th June 2014 be returned to Treasury.

I advised NAADS that the secretariat include properly reconciled cash and book balances in the financial statements and reconciliations should be reviewed and approved.

6.7.2 **Unaccounted for funds transferred to the districts**

It was also noted that funds totalling to UGX.2,069,399,000 at the district as per the financial statements have remained unaccounted for. These have been outstanding more than a year and therefore their recovery is uncertain. As such, its existence in the financial statements may therefore be an overstatement of cash and advances.

I advised NAADS Secretariat to take necessary procedures to recover the unaccounted for funds in the districts.

6.8 **Unaccounted for funds advanced to staff**

The Treasury Accounting Instructions (TAI) 217 stipulates that advances not accounted for within 60 days from the date of payment shall be deducted from the monthly salary of the debtor. Contrary to the above, UGX.331,881,000 advanced to various officers to carry out official activities remained unaccounted for at the end of the financial year. I further noted lack of adequate system of tracking advances based on the fact that and that advances are expensed when paid out instead of when they are accounted for. I could not confirm whether the funds were used for the intended purposes.

Management explained that the IFMS system does not have provision for tracking advances and therefore payments are expensed each time a payment is.

I advised the Accounting Officer to ensure the funds are fully and timely accounted for or recoveries be made from the affected officers.

6.9 **Irregular payment of legal costs**

NAADS made payments of UGX.92,120,000 and UGX.50,123,186 to an individual on 2nd June 2015 and 3rd July 2015 for legal costs and interest thereon respectively in
the case against Kisoro District Local Government. I noted that NAADS was not a party to the law suit and therefore this payment was made without basis. I was not availed with a court judgment that required payment of the costs. Besides, the expenditure was wrongly charged on Medical and Agricultural supplies thus a diversion.

I advised management to institute measures to recover the loss.

6.10 Absence of verification of inputs on delivery
A review of the inputs delivery process at the districts revealed that whereas copies of the goods received notes at the secretariat originated from the districts, I noted weaknesses in the receiving process at the districts.

- The Goods Received Notes (GRNs) are supposed to be raised on receipt of the items however, Inputs like citrus, mangoes, cassava cuttings are delivered directly to sub counties and goods received notes (GRNs) were raised after the inputs had been distributed.
- Other inputs like tea seedlings were acknowledged as received after planting especially in Kigezi sub-region.
- The items were therefore not received by the district Stores person and were not verified by the Internal Auditor before they are distributed.

Management explained that the Secretariat requires that the District Officials receive agricultural inputs at the District Headquarters before they are distributed to the beneficiary sub-counties. However, in some cases, especially in the case of the hard-to-reach Sub counties and bulky materials such as cassava cuttings, the District Officials have found it more practical to dispatch the relevant staff to witness the delivery of the inputs from the beneficiary sub counties, and subsequently prepare the relevant documents. In addition, Management has however enhanced controls over the receiving process by making it mandatory for Operation wealth creation Officers to witness and sign delivery documents.

I await management implementation action on the matter.

6.11 Management of Payroll
(i) I noted that staff at management level is provided vehicles that are available to them full time. This implies that the vehicles are provided for both official and private use. Such benefit according to provisions of the Incomes Tax
attracts Taxes on Benefits In Kind (BIK) which was not deducted. Management did not fully comply with the Income Tax Act requirements.

(i) I also noted that NSSF was not deducted from leave pay which is paid annually. Management did not comply with the NSSF Act.

(ii) A review of the financial statements indicated that salaries and wages for the year amounted to UGX.3,346,315,692. However, my review of the payrolls revealed that total expenditure on salaries and wages amounted to UGX.3,502,470,891 thereby understating expenditure on salaries and wages by UGX.156,155,199.

Management explained that the NAADS Human Resource Policies and Procedures Manual provides for chauffer driven vehicles for staff at Management level. However, this provision is not fully operationalized in practice due to implementation difficulties. Further, the difference that appears between the payroll value and figure posted in financial statements is reflected in gratuity ledger. During restructuring some staff were expected to end service by 31st October 2014 but the restructuring was completed in December 2014. This therefore meant that the salary ledger had no salary provision for extra staff for the month of November and December hence the charge were made on gratuity.

I advised management to:

- Always compute Benefits In Kind and included it in the employees’ gross pay used in computing the monthly PAYE. A computation should be done for all the previous months to determine the unpaid tax that should be deducted from the staff salaries and remitted to Uganda Revenue Authority.
- Reconcile the payrolls to the amounts posted to the ledgers/financial statements and make the necessary adjustments.

6.12 Payment of terminal benefits

I visited a number of districts that were paid terminal benefits with the objective of ensuring that terminal benefits were correctly computed and paid to genuine staff, statutory deductions properly calculated and remitted to respective departments, and that all bona fide employees qualifying for terminal benefits were paid. The following anomalies were observed;
i) I noted that 26 districts did not account for funds totaling to UGX.1,513,580,235 received as terminal benefits. In many instances, the Districts did not have financial records while others diverted funds to unrelated activities. I found this expenditure ineligible.

ii) I also noted wrong computation of terminal benefits in some districts. For instance;

a) 32 Diploma holder under the Agricultural Advisory Services Providers (AASPs) in Rakai District were paid gratuity at a rate of UGX.900,000 each instead of UGX.750,000. This caused overpayment of UGX.4,800,000. Further still, two AASPs whose employment contracts expired on 30th November 2012, according to the availed records, remained on the payroll and were paid terminal benefits of UGX.7,118,000. Using wrong salary rates to calculate gratuity and maintaining staff on payroll without valid employment contracts caused a financial loss to NAADS.

b) Payment for gratuity was computed differently as some districts computed gratuity basing on instructions from the secretariat hence providing a full month gross salary while others like Nakasongola, Kibaale and Butambala districts, based their computations on staff contracts which was 25% of their basic salary, thus underpaying the staff. This could lead to litigation in courts of law and may result into losses to NAADS.

c) Some districts did not deduct PAYE worth UGX.15,534,000 on gratuity as indicated in the table below. These funds were not therefore transferred to URA contrary to the law.

<table>
<thead>
<tr>
<th>District</th>
<th>Gross Gratuity (Shs)</th>
<th>PAYE not deducted (Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amuru</td>
<td>16,710,000</td>
<td>5,013,000</td>
</tr>
<tr>
<td>Kibaale</td>
<td>35,070,000</td>
<td>10,521,000</td>
</tr>
<tr>
<td>Total</td>
<td>51,780,000</td>
<td>15,534,000</td>
</tr>
</tbody>
</table>

iii) I also noted that there were pending claims of terminal benefits in the 9 districts of Arua, Napak, Amudat, Abim, Gulu, Buhweju, Bushenyi, Mubende and Sembabule. I could not verify and quantify their claims because most of the staff comprised of staff from Agricultural Advisory Services Providers who
were recruited at sub counties and their employment files were kept at their respective sub counties.

Management explained that all District Local Governments were given clear guidance on how the funds for terminal benefits were to be utilized and they were required to remit any unutilized balances to the consolidated fund. Management is following up the matter with the Chief Administrative Officers to ensure compliance with both the guidance given to them and the financial regulations.

I recommended that;

- All Districts to provide accountability or refund all funds spent on ineligible expenditure.

- NAADS secretariat should verify the pending claims and provide for their settlement.

- District officials should be tasked to recover un-deducted PAYE and remit it to Uganda Revenue Authority.

6.13 **Un-Spent cash and bank balances at districts**

I noted that 24 districts did not refund unspent balances to the National Treasury. Retaining the funds at districts’ bank accounts after 30th June 2015 contravenes the treasury standing orders. The funds may also be misappropriated.

Management took note of the non-compliance and explained that NAADS Secretariat has written to all Chief Administrative Officers requiring them to bank unutilized funds as per financial regulations. Management will bring the matter to the attention of Accountant General and Ministry of Local Government for further action.

I await the outcome of management action on the matter.

7.0 **Progress on Issues Raised in the Previous Year’s Audit Report**

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>STATUS/PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 Compliance with the Financing Agreement</td>
<td>Government changed the implementation of component 3 from the activities agreed with the participating partner institutions that focused on provision of advisory services to free input distribution. This led to disagreements with the development partners that resulted in Implementation of NAADS programme was terminated</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
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<td>---------</td>
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<tr>
<td>2.0</td>
<td><strong>Monitoring and Evaluation of interventions by NAADS secretariat</strong>&lt;br&gt;I noted that the existing monitoring and evaluation function at NAADS is lacking in many aspects such as;  &lt;ul&gt;• Beneficiaries are not identified and documented before procurement of inputs which creates the risk of diversion of inputs.&lt;br&gt;• There is no data base of farmers supported by NAADS to track their progress and success of the interventions.&lt;/ul&gt; There is manual record of all beneficiaries at District level. Beneficiaries are identified by category and enterprise and its this information that provides basis for procurement.</td>
</tr>
<tr>
<td>3.0</td>
<td><strong>Procurement management</strong>&lt;br&gt;My review of procurement procedures and controls revealed the following anomalies;  &lt;ul&gt;• The procurement plan was not approved by the World Bank contrary to the provisions of the financing agreement.&lt;br&gt;• The department does not maintain procurement complaints register where bidders can register their complaints.&lt;br&gt;• There is no procurement notice board for publicity.&lt;/ul&gt; Done</td>
</tr>
</tbody>
</table>
| 4.0     | **Distribution of farm inputs**<br>• During the year, the secretariat incurred UGX.3,953,424,825 on the purchase and distribution of inputs to farmers that was not supported by lists of beneficiaries or acknowledgement by the beneficiaries.<br>• Further still the distribution of the inputs is not properly planned because the procurement of the inputs is done before determination of the beneficiaries.  
In the FY 2014/2015, the same observations were made. Distribution lists for selected supplies like cocoa, tea, pineapple, goats, pigs, heifers are available. The other inputs have their distribution lists retained at the Districts owing to big paper volumes and low risk attached to them. |
| 5.0     | **Tea Intervention Project**<br>Substantial expenditure amounting to UGX.18,555,353,908 was incurred on the purchase and distribution of 38,168,367 tea seedlings mainly in the Kigezi region. In the course of the audit i noted irregularities in the procurement, distribution, delivery and payment for the tea seedlings as elaborated below;  
**Suppliers of Tea seedlings** Not done |
- Contracts for the supply of tea seedlings were made after supply of tea seedlings implying that the procurement process is contrary to established government procurement laws and regulations.

**Lead agencies**
Issues of concern with this arrangement are;
- Selection of lead agencies did not follow established procurement procedures and hence not transparently done.
- The MOU does not clearly justify the 30% payment of the value of tea plantlets to the lead agency.
- Payments to the lead agency are not supported by evidence of extension services provided.

**Distribution/delivery of tea seedlings to farmers**
- Generally tea seedlings deliveries to the farms as recorded in the payment records do not appear to match farm acreage planted. For the farm where acreage was provided, there is a big discrepancy between the tea seedlings recorded as delivered and the tea plants that can be accommodated on the farm.

### 6.0 Commitments through local letters of credit at the year-end

- Funds amounting to UGX.13,892,716,461 were transferred to Bank of Uganda as commitments to open local letters of credit between 19th June and 27th June 2014. Included in the funds transferred was UGX.137,551,648 as commission for the letters of credit. I observed that 6 months later after the commitment of the funds for the local purchases, UGX.6,977,959,526 remain unperformed local letters of credit. This is made of mainly commitment to the suppliers of citrus seedlings amounting to UGX.3,640,513,000.

Not done. Further commitments through Local letters of credit done in June 2015

### 7.0 Fixed Assets

- Fixed asset register is not properly maintained.

Not done. No changes were made to the Fixed Assets Register.
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<tbody>
<tr>
<td>8.</td>
<td>Irregular procurement of goods and services</td>
<td>• The contract value was UGX.310,665,969. It was however noted that this procurement was not on the approved procurement plan and management did not obtain a “no objection” from the World Bank or inform the bank about this procurement. Further still, the supplier was acquired through direct procurement/contracting without competition. NAADS procurement manual requires that the direct procurement method is used for small procurements of less than USD 5,000 or subject to prior review by participating partners and this was not done. Not done. Irregular procurements were again noted during the audit of the financial year 2014/15</td>
</tr>
<tr>
<td>3.</td>
<td>Frame work contracts</td>
<td>• A framework contract with Ssembeguya Estates was signed on 20th February 2014 to supply 80 motorised Knapsack Sprayers at a price UGX.1,850,000 per sprayer. However, the call-off order made to Ssembeguya Estates on 23rd March 2014 was for 250 units.</td>
</tr>
<tr>
<td></td>
<td>Unaccounted for funds</td>
<td>• In the course of the audit we noted the following unaccounted for funds amounting to UGX.499,008,800. Accountability is now available</td>
</tr>
<tr>
<td></td>
<td>Payroll</td>
<td>• I noted that the secretariat did not deduct and remit local service tax to relevant authorities. Officer has since left the Organisation.</td>
</tr>
<tr>
<td>5.</td>
<td>Irregular procurement of tea seedlings in Kanungu</td>
<td>• The contracts awarded related to supplies made between September and December 2012 implying that the procurement process was done retrospectively. According to available documentation, the deliveries were purportedly made between November and December 2012, six months before the procurement process to identify, evaluate and award contracts to the suppliers was Not done. The procurement of tea seedlings was again noted not to be in compliance with procurement rules and regulations</td>
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<tr>
<td>6</td>
<td>Missing payment vouchers</td>
<td>I noted voucher worth UGX.114,211,525 missing. No missing payment vouchers were noted during the audit.</td>
</tr>
<tr>
<td>7</td>
<td>Unsupported expenditure</td>
<td>Noted payments effected by the NAADS secretariat amounting to UGX.304,477,000 that lack adequate accountability. Not done. Instances of inadequate support for payments made were again noted.</td>
</tr>
<tr>
<td>8</td>
<td>Double payment of periderms to AASPS</td>
<td>It was noted that a duplicate per diem payment was made to Agriculture Advisory Services Providers (AASPS) that participated in the AFRISA hay making training. Management was advised to recover the excess payment of UGX.27,300,000. Not done</td>
</tr>
<tr>
<td>9</td>
<td>Transfers to Zonal Bank accounts</td>
<td>It was noted that transfers to zonal bank accounts are expensed on disbursement. In some instances, actual expenditure in the zones differs from the expenditure indicated on the requisitions against which the zonal bank account is replenished by the secretariat leading to incorrect categorisation of expenses. Management was advised record the transfers of funds by the secretariat to zones as advances and only expense on receipt of accountability from the zones. Note done</td>
</tr>
<tr>
<td>10</td>
<td>Unaccounted for funds at districts</td>
<td>It was noted that districts did not provide accountability to the secretariat for funds amounting to UGX.674,549,760. Management was advised to obtain full accountability for all funds transferred to districts. Not done. Some districts did not provide accountability for funds received for NAADS activities during the year.</td>
</tr>
<tr>
<td>11</td>
<td>Activity advances</td>
<td>It was noted that advances to staff for activities and workshops are expensed on payment to staff before the actual activity is done. Further still in most cases, the accountability is not provided within 60 days and there is no evidence of advance accountability review. It was also observed that there is no Not done</td>
</tr>
<tr>
<td>12</td>
<td>Financial Statements</td>
<td>• Absence of clear financial reporting guidelines has resulted in the preparation of annual financial statements that do not comply with any generally accepted financial reporting framework and provide insufficient information on financial performance.</td>
</tr>
<tr>
<td>13</td>
<td>Statutory deductions</td>
<td>• Noted instances of failure to deduct Withholding Tax from suppliers and to timely file returns for PAYE and WHT.</td>
</tr>
<tr>
<td>14</td>
<td>Return of unexpended bank balances to consolidated fund</td>
<td>• It was noted that unexpended Bank balances of UGX11,947,541,888 and 10,404,580,442 as at 30th June 2012 and 30th June 2013 respectively were not returned to the consolidated fund.</td>
</tr>
<tr>
<td>15</td>
<td>Accounting System</td>
<td>• It is necessary to ensure that all transactions at the secretariat are processed using IFMS so that there are captured in the ledgers. Alternatively manual ledgers should be maintained to record transactions made outside IFMS.</td>
</tr>
<tr>
<td>16</td>
<td>Procurements described as partnerships</td>
<td>• It was noted that some of the cooperation agreements for partnerships were actually procurement of goods and services not competitively done and not done in accordance with the PPDA Act.</td>
</tr>
</tbody>
</table>
| 17 | Agreement between Mugenga Holdings Ltd, Kisoro Potato Growers Association and Kisoro District Local Government | • There was no accountability provided for the payment of UGX.500,000,000 made to Mugenga Holdings Limited.  
• The share capital of the company of UGX.20,000,000 is much lower than the contribution of UGX.500,000,000. |
by the NAADS secretariat on behalf of the farmers (Kisoro Potato Growers and Marketing Association).

- The beneficiary farmers are not registered with NAADS contrary to requirements of the project management procedures provided in the ATAAS Project Implementation Manual. At the time of the audit (4/02/2014), which is 17 months after the payment, the factory had not been completed.

| 18 | Supply of Parent Stock Chicks and Poultry feeds to Eden Stores | Delivers of both the chicks and feeds were made on various dates in August 2010 without the involvement of the subject matter specialist or any other district official to verify and confirm the supply. However, by the time of the audit (13/02/2014), distribution of chicks to intended beneficiaries had not been done. The supplier was fully paid on 17th July 2013. Recommended management follow-up to ensure distribution of chicks to the farmers. | Not done |

| 19 | Cooperation Agreement between NAADS and Agency for National Development (A.N.D) for social economic empowerment through skills training. | The training modules include those not related to the NAADS mandate and the ATAAS project such as metal fabrication, saloon, tailoring, Auto electrics, and cookery and catering as well as carpentry and joinery. It is not clear how the contractor was procured. Advised management to terminate contract. | Done. The contract was terminated. |

<p>| 20 | Supply of Milk Coolers | This cost was incurred because plans for distribution and installation of the coolers were not finalized before the handover. Further still, our field verification of the milk coolers revealed that they were not in use in some cases because the installation was not completed and in others milk coolers were fitted with new generators matching the capacity of the coolers and they are now functional. |  |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Details</th>
<th>Status</th>
</tr>
</thead>
</table>
| 21  | Clearing and Planting of Maize seeds on 500 acres of Land in Adjumani district by J.S & O General Supplies Ltd | - This activity was however not provided for in the ATAAS project and the World Bank approved work plan.  
- Also the procurement was not done in accordance with NAADS and ATAAS procurement regulations.  
- Further still, we noted that the payment of UGX.10,000 per kilogram for the 10,000 kilograms of OPV seeds was excessive given that the market price is UGX.1000-2000 per kilogram. | Not done. No action taken on excessive price paid.                        |
<p>| 22  | Staff benefits not in employment contracts                                    | - Noted that 22 staffs of NAADS secretariat are paid a monthly transport allowance of UGX.214,286 that is not provided for in their respective employment contracts. The total transport allowance paid to staff during the financial year was UGX.56,571,504. | Done                                                                  |
| 23  | Sitting allowances to NAADS secretariat staff                               | - Noted instances of payment of sitting allowances to various staff committees such as the contracts committee and for staff participating in interviewing new staff. The payment of these allowances is unjustified given that these are staff of the secretariat doing secretariat work within the offices and are actually ineligible for funding by the participating partner. | Done                                                                  |
| 24  | Fuel Log Books                                                               | - I however noted that for some, all required details such as purpose of journey, time in and out are not recorded and there is no evidence of review of such logbooks. | Done                                                                  |
| 25  | East African Agricultural                                                    | - The EAAPP cashbook is not | Done                                                                  |</p>
<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity Project (EAAPP)</td>
<td>Analysed and there are no ledgers for project expenses. EAAPP fund transfers to the zonal offices are maintained in the same cashbook as ATAAS funds.</td>
<td>Payments amounting to UGX.61,625,300 from the EAAPP cash book were not supported.</td>
</tr>
<tr>
<td>26 Pilot Goat Breeding and Production Scheme for Export</td>
<td>During the financial year 2012/13, the secretariat transferred UGX.663,099,049 to Sembeguya Estates for the project. However noted that these transfers were not supported by budgets and work plans.</td>
<td>Project not implemented in the year under review.</td>
</tr>
</tbody>
</table>
APPENDIX 1

FINANCIAL STATEMENTS