ACRONYMS .................................................................................................................. I

PART ONE .................................................................................................................. 1

1.0 RESPONSIBILITY OF THE AUDITOR GENERAL AND THE LEGAL FRAME WORK ........... 1
2.0 STATUS OF ACCOUNTS AUDITED DURING THE YEAR .................................................. 2
3.0 STATUS OF AUDITS .................................................................................................. 3
4.0 BASIS AND TYPES OF OPINIONS ISSUED .................................................................... 4
5.0 KEY AUDIT FINDINGS .............................................................................................. 7
6.0 GENERAL AUDIT FINDINGS ..................................................................................... 9

PART TWO .................................................................................................................... 16

ENERGY SECTOR ............................................................................................................ 16

7.0 UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED (UETCL) - YEAR ENDED
31ST DECEMBER, 2012 .................................................................................................. 16
8.0 KILEMBE MINES LIMITED - YEAR ENDED 30TH JUNE, 2013 .................................... 22
9.0 UGANDA ELECTRICITY GENERATION COMPANY LIMITED (UEGCL) - YEAR ENDED
31ST DECEMBER, 2012 .............................................................................................. 24
10.0 UGANDA ELECTRICITY DISTRIBUTION COMPANY LIMITED (UEDCL) - YEAR ENDED
31ST DECEMBER, 2012 .............................................................................................. 29
11.0 ELECTRICITY REGULATORY AUTHORITY (ERA) - YEAR ENDED 30TH JUNE 2013 ...... 33
12.0 AMBER HOUSE LIMITED – YEAR ENDED 31ST DECEMBER, 2012 ............................ 35
13.0 ATOMIC ENERGY COUNCIL - YEAR ENDED 30TH JUNE, 2013 ................................. 38
14.0 FUEL MARKING AND QUALITY MONITORING PROGRAM (FMQP) FOR THE YEAR
ENDED 30TH JUNE 2012 ............................................................................................. 40
15.0 FUEL MARKING AND QUALITY MONITORING PROGRAM (FMQP) FOR THE YEAR
ENDED 30TH JUNE 2013 ............................................................................................. 42

HEALTH SECTOR .......................................................................................................... 44

16.0 UGANDA MEDICAL AND DENTAL PRACTITIONERS COUNCIL - YEAR ENDED 30TH JUNE
2013 .................................................................................................................................. 44
17.0 THE NATIONAL DRUG AUTHORITY - YEAR ENDED 30TH JUNE 2012 ..................... 44
18.0 THE NURSES AND MIDWIVES COUNCIL - YEAR ENDED 30TH JUNE, 2013 ................. 49
19.0 NATIONAL MEDICAL STORES - YEAR ENDED 30TH JUNE, 2013 ............................. 50
20.0 CDC - NATIONAL MEDICAL STORES - PERIOD 1ST JULY, 2010 TO 29TH SEPTEMBER,
2011 .................................................................................................................................. 52
21.0 CDC - NATIONAL MEDICAL STORES - PERIOD 30TH SEPTEMBER, 2011 TO 29TH
SEPTEMBER, 2012 ........................................................................................................... 55
22.0 ALLIED HEALTH PROFESSIONALS COUNCIL - YEAR ENDED 30TH JUNE 2013........... 60
23.0 JOINT CLINICAL RESEARCH CENTRE – 30TH JUNE, 2012 ........................................... 62
24.0 JOINT CLINICAL RESEARCH CENTRE – 30TH JUNE, 2013 ........................................... 67
25.0 TARGETED HIV/AIDS AND LABORATORY SERVICES (THALAS) PROGRAM AND
MANAGEMENT SCIENCES FOR HEALTH (INC.) SUB-GRAINT, (JOINT CLINICAL
RESEARCH CENTRE) COOPERATIVE AGREEMENT NO. AID-617-A-10-00006 AND SUB-
AGREEMENT NO. 617-A-00-09-00006-00 ........................................................................ 71

EDUCATION SECTOR ............................................................................................................ 79
26.0 NATIONAL COUNCIL OF SPORTS - 30TH JUNE, 2013 .................................................... 79
27.0 MANAGEMENT TRAINING AND ADVISORY CENTRE - YEAR ENDED 31ST DECEMBER,
2012.................................................................................................................................. 83
28.0 THE UGANDA NATIONAL EXAMINATIONS BOARD (UNEB) - YEAR ENDED 30TH JUNE,
2013.................................................................................................................................. 85
29.0 NATIONAL CURRICULUM DEVELOPMENT CENTRE (NCDC) - YEAR ENDED 31ST
DECEMBER, 2012............................................................................................................. 87
30.0 NATIONAL COUNCIL FOR HIGHER EDUCATION FOR THE FINANCIAL YEAR ENDED
30TH JUNE, 2013.............................................................................................................. 89
31.0 NAKIVUBO WAR MEMORIAL STADIUM TRUST FOR THE YEAR ENDED 31ST DECEMBER
2012.................................................................................................................................. 94
32.0 MANDELA NATIONAL STADIUM LTD FOR THE YEAR ENDED 31ST DECEMBER, 2012
............................................................................................................................................ 101

INFORMATION AND COMMUNICATION SECTOR ................................................................ 106
33.0 NEW VISION PRINTING AND PUBLISHING COMPANY LIMITED - YEAR ENDED 30TH
JUNE 2013 ......................................................................................................................... 106
34.0 UGANDA COMMUNICATIONS COMMISSION - YEAR ENDED 30TH JUNE, 2013........ 108
35.0 THE BROADCASTING COUNCIL - YEAR ENDED 30TH JUNE 2013............................... 110
36.0 UGANDA INSTITUTE OF INFORMATION AND COMMUNICATIONS TECHNOLOGY -
YEAR ENDED 30TH JUNE, 2013 ................................................................................... 110
37.0 RURAL COMMUNICATION DEVELOPMENT FUND (RCDF) - YEAR ENDED 30TH JUNE,
2013.................................................................................................................................. 110
38.0 UGANDA NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY (UNCST)........ 111
39.0 UGANDA NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY MILLENNIUM
SCIENCE INITIATIVE (MSI) PROJECT IDA CREDIT NUMBER 4174 – UG 30TH JUNE
2013 .................................................................................................................................. 120

40.0 UGANDA BROADCASTING CORPORATION (UBC) - YEAR 30TH JUNE 2013 .......... 125
41.0 NATIONAL INFORMATION TECHNOLOGY AUTHORITY-YEAR ENDED 30TH JUNE 2013
........................................................................................................................................... 141
42.0 UGANDA POST LIMITED – 30TH JUNE, 2011 ................................................................. 144
43.0 UGANDA POST LIMITED – 30TH JUNE, 2012 ................................................................. 147
44.0 UGANDA POST LIMITED – 30TH JUNE, 2013 ................................................................. 151

**TRADE AND TOURISM SECTOR** ....................................................................................... 156

45.0 UGANDA WILDLIFE AUTHORITY - YEAR ENDED 30TH JUNE 2013 ..................... 156
46.0 UGANDA NATIONAL BUREAU OF STANDARDS - YEAR ENDED 30TH JUNE 2013 ..... 158
47.0 UGANDA TOURISM BOARD - YEAR ENDED 30TH JUNE, 2013 .............................. 160
48.0 NILE HOTEL INTERNATIONAL LIMITED - YEAR ENDED 31ST DECEMBER, 2012 ..... 163
49.0 UGANDA EXPORT PROMOTION BOARD - YEAR ENDED 31ST DECEMBER 2012 ...... 166
50.0 UGANDA PROPERTY HOLDINGS LIMITED - YEAR ENDED 30TH JUNE 2013 ......... 167
51.0 UGANDA DEVELOPMENT COMPANY LTD. - 31ST DECEMBER, 2012 ...................... 169
52.0 UGANDA WILDLIFE TRAINING INSTITUTE- YEAR ENDED 30TH JUNE, 2013 ...... 170
53.0 UGANDA WILDLIFE EDUCATION CENTRE YEAR ENDED 30TH JUNE, 2013 ........ 171
54.0 HOTEL AND TOURISM TRAINING INSTITUTE – FOR THE YEAR ENDED 30TH JUNE,
2013 ........................................................................................................................................ 173
55.0 UGANDA PETROLEUM INSTITUTE KIGUMBA – YEAR ENDED 30TH JUNE, 2013 ...... 174

**SOCIAL DEVELOPMENT SECTOR** ..................................................................................... 175

56.0 NATIONAL SOCIAL SECURITY FUND (NSSF) -YEAR ENDED 30TH JUNE, 2012 ..... 175
57.0 NATIONAL WOMEN’S COUNCIL - YEAR ENDED 30TH JUNE, 2013 ........................ 183
58.0 NATIONAL COUNCIL FOR CHILDREN - YEAR ENDED 30TH JUNE, 2013 .......... 184
59.0 NATIONAL COUNCIL FOR DISABILITY - YEAR ENDED 30TH JUNE, 2013 ............. 185
60.0 NATIONAL YOUTH COUNCIL - YEAR ENDED 30TH JUNE, 2013 ......................... 187
61.0 NATIONAL LIBRARY OF UGANDA FOR THE YEAR ENDED 30TH JUNE 2013 .......... 189
62.0 UGANDA NATIONAL CULTURAL CENTRE ................................................................. 192

**AGRICULTURE SECTOR** .................................................................................................. 194

63.0 COTTON DEVELOPMENT ORGANIZATION (CDO)- YEAR ENDED 31ST OCTOBER 2013
.............................................................................................................................................. 194
64.0 COORDINATING OFFICE FOR THE CONTROL OF TRYPANOSOMIASIS IN UGANDA
(COCTU), 2013 .................................................................................................................. 195
65.0 UGANDA COFFEE DEVELOPMENT AUTHORITY YEAR ENDED JUNE2012 .......... 196
66.0 DAIRY DEVELOPMENT AUTHORITY (DECEMBER 2012) ......................................................... 200
67.0 NATIONAL ANIMAL GENETIC RESOURCE CENTRE AND DATA BANK YEAR ENDED 30TH JUNE 2013 .................................................................................................................. 204

WATER & ENVIRONMENT .................................................................................................................. 221
68.0 NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY YEAR ENDED 30TH JUNE, 2013 .................................................................................................................................................. 221
69.0 NATIONAL FORESTRY AUTHORITY (NFA) FOR THE YEAR ENDED 30TH JUNE 2013 222
70.0 NATIONAL WATER AND SEWERAGE CORPORATION (NWSC) ........................................ 228
71.0 NATIONAL WATER AND SEWERAGE CORPORATION KAMPALA SANITATION PROGRAMME PHASE I – FOR THE YEAR ENDED 30TH JUNE, 2012 ............................................................... 236

ACCOUNTABILITY SECTOR .................................................................................................................. 236
72.0 UGANDA REVENUE AUTHORITY ........................................................................................... 236
73.0 THE EAST AFRICAN TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP) (UGANDA REVENUE AUTHORITY COMPONENT) IDA CREDIT NO.4147 UG ............. 251
74.0 THE UGANDA REVENUE AUTHORITY MANAGING COMPLIANCE PROGRAM ............. 251
75.0 CAPITAL MARKETS AUTHORITY- YEAR ENDED 30TH JUNE 2013 ................................. 253
76.0 PRIVATIZATION AND UTILITY SECTOR REFORM PROJECT – DIVESTITURE AND REDUNDANCY ACCOUNTS (PUSRP) 30TH JUNE 2013 ............................................................... 253
77.0 NATIONAL PLANNING AUTHORITY ...................................................................................... 256
78.0 MICROFINANCE SUPPORT CENTRE LIMITED ................................................................. 260
79.0 UGANDA BUREAU OF STATISTICS ...................................................................................... 264
80.0 UGANDA BUREAU OF STATISTICS SUPPORT TO FIRM DATA GENERATION (SFDG) PROJECT ................................................................................................................................. 266
81.0 UGANDA BUREAU OF STATISTICS - STRENGTHENING EVIDENCE BASED DECISION MAKING II (SEBDM II) PROJECT ............................................................................................... 268
82.0 UGANDA BUREAU OF STATISTICS-SUPPORT TO THE UGANDA PANEL SURVEY PROJECT .......................................................................................................................... 269
83.0 BANK OF UGANDA .................................................................................................................. 270
84.0 UGANDA DEVELOPMENT BANK .......................................................................................... 286
85.0 THE EUROPEAN INVESTMENT BANK/REPUBLIC OF UGANDA APEX PRIVATE ENTERPRISE LOAN SCHEME (BANK OF UGANDA) ................................................................. 294
86.0 UGANDA INVESTMENT AUTHORITY (UIA) ........................................................................ 303
87.0 PUBLIC PROCUREMENT AND DISPOSAL OF ASSETS – YEAR ENDED 30TH JUNE, 2013 .......................................................................................................................... 309
88.0  INSURANCE REGULATORY AUTHORITY (IRA) – YEAR ENDED 30 TH JUNE, 2013 ... 311
89.0  UGANDA SEEDS COMPANY LIMITED........................................................................... 314
90.0  UGANDA AIR CARGO CORPORATION JUNE 2013 .................................................... 317
91.0  NEC CONSOLIDATED & SUBSIDIARIES (JUNE 2013)-NEC FARM KATONGA LTD .... 321
92.0  NATIONAL ENTERPRISE CORPORATION – HEADQUARTERS ................................. 321
93.0  NEC TRACTOR HIRE SHEME LTD.............................................................................. 322
94.0  LUWERO INDUSTRIES LTD ......................................................................................... 323

TRANSPORT AND WORKS SECTOR ................................................................................... 324
95.0  UGANDA RAILWAYS CORPORATION (2011)............................................................. 325
96.0  CIVIL AVIATION AUTHORITY- YEAR ENDED 30TH JUNE 2012 .......................... 330

JUSTICE, LAW AND ORDER SECTOR ............................................................................... 335
97.0  LAW DEVELOPMENT CENTRE – YEAR ENDED 30TH JUNE, 2013...................... 335
98.0  AMNESTY COMMISSION ............................................................................................ 342
<table>
<thead>
<tr>
<th>AC</th>
<th>Assistant Commissioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>AEC</td>
<td>Atomic Energy Council</td>
</tr>
<tr>
<td>AG</td>
<td>Accountant General</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>AHPC</td>
<td>Allied Health Professionals Council</td>
</tr>
<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
</tr>
<tr>
<td>APLO</td>
<td>Assistant Procurement and Logistics Officer</td>
</tr>
<tr>
<td>ASYCUDA</td>
<td>Automated System for Customs Data Analysis</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>B.Com</td>
<td>Bachelor of Commerce</td>
</tr>
<tr>
<td>BBA</td>
<td>Bachelor of Business Administration</td>
</tr>
<tr>
<td>BEL</td>
<td>Bujagali Energy Ltd</td>
</tr>
<tr>
<td>BOU.</td>
<td>Bank Of Uganda</td>
</tr>
<tr>
<td>BTVET</td>
<td>Business, Technical and Vocational Education Training</td>
</tr>
<tr>
<td>CA</td>
<td>Continuous Assessment</td>
</tr>
<tr>
<td>CAA</td>
<td>Civil Aviation Authority</td>
</tr>
<tr>
<td>Cap</td>
<td>Chapter</td>
</tr>
<tr>
<td>CBC</td>
<td>Customs Business Center</td>
</tr>
<tr>
<td>CCTV</td>
<td>Close-Circuit Television</td>
</tr>
<tr>
<td>CDC</td>
<td>Center for Disease Control</td>
</tr>
<tr>
<td>CDO</td>
<td>Cotton Development Organization</td>
</tr>
<tr>
<td>CDS</td>
<td>Central Depository System</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CESS</td>
<td>Export Levy</td>
</tr>
<tr>
<td>CIF</td>
<td>Cost Insurance and Freight</td>
</tr>
<tr>
<td>CIID</td>
<td>Criminal Investigation and Intelligence Directorate</td>
</tr>
<tr>
<td>CMA</td>
<td>Markets Authority Capital</td>
</tr>
<tr>
<td>CME</td>
<td>Chief Mechanical Engineer</td>
</tr>
<tr>
<td>COCTU</td>
<td>Coordinating Office for Control Of Trypanosomiasis In Uganda</td>
</tr>
<tr>
<td>COHRE</td>
<td>Clinical Operational and Health Services Research</td>
</tr>
<tr>
<td>COSASE</td>
<td>Committee on Commissions, Statutory Authorities and State Enterprises</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organisations</td>
</tr>
<tr>
<td>DADIs</td>
<td>District Assistant Drug Inspectors</td>
</tr>
<tr>
<td>DBICs</td>
<td>District Business Information Centres</td>
</tr>
<tr>
<td>DCL</td>
<td>Dairy corporation limited</td>
</tr>
<tr>
<td>DDA</td>
<td>Dairy Development Authority</td>
</tr>
<tr>
<td>DFCU</td>
<td>Development Finance Company Uganda</td>
</tr>
<tr>
<td>DPP</td>
<td>Directorate of Public Prosecution</td>
</tr>
<tr>
<td>DRIC</td>
<td>Divestiture and Reform Implementation Committee</td>
</tr>
<tr>
<td>DT</td>
<td>Domestic Taxes</td>
</tr>
<tr>
<td>EAC</td>
<td>East African Community</td>
</tr>
<tr>
<td>EACC</td>
<td>East African Community Customs</td>
</tr>
<tr>
<td>EACCMA</td>
<td>East African Community Customs Management Act</td>
</tr>
<tr>
<td>EARC</td>
<td>East Africa Railways Corporation</td>
</tr>
<tr>
<td>EATTFP</td>
<td>East African Trade and Transport Facilitation Project</td>
</tr>
<tr>
<td>ED</td>
<td>Executive Director</td>
</tr>
<tr>
<td>EFT</td>
<td>Electronic Funds Transfer</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>EGI</td>
<td>E-Government Infrastructure</td>
</tr>
<tr>
<td>EMS</td>
<td>Express Mail Services</td>
</tr>
<tr>
<td>ERA</td>
<td>Electricity Regulatory Authority</td>
</tr>
<tr>
<td>ETP</td>
<td>Entrepreneurship Training Program</td>
</tr>
<tr>
<td>FAR</td>
<td>Financial and Accounting Regulations</td>
</tr>
<tr>
<td>FERM-PC</td>
<td>Foreign Exchange Reserve Management – Policy Committee</td>
</tr>
<tr>
<td>FINMAP</td>
<td>Financial Management and Accountability Programme</td>
</tr>
<tr>
<td>FK</td>
<td>Fredkorpset</td>
</tr>
<tr>
<td>FUFA</td>
<td>Federation of Uganda Football Association</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>FYR</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>GRN</td>
<td>Goods Received Note</td>
</tr>
<tr>
<td>HIO</td>
<td>Health Insurance Organization</td>
</tr>
<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
</tr>
<tr>
<td>HMO</td>
<td>Health Membership Organization</td>
</tr>
<tr>
<td>HON.</td>
<td>Honourable</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resource</td>
</tr>
<tr>
<td>HTTI</td>
<td>Hotel &amp; Tourism Training Institute</td>
</tr>
<tr>
<td>IAC</td>
<td>Internal Audit and Compliance</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communications Technology</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
</tr>
<tr>
<td>IFMS</td>
<td>Integrated Financial Management System</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IICSP</td>
<td>Integrated Intelligent Computer System Project</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offer</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>IRA</td>
<td>Insurance Regulatory Authority</td>
</tr>
<tr>
<td>ISP</td>
<td>Internet Service Provider</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>ITSC</td>
<td>Interim Technical Supervisory Committee</td>
</tr>
<tr>
<td>IXP</td>
<td>Internet Exchange Point</td>
</tr>
<tr>
<td>JBIC</td>
<td>Japan Bank for International Cooperation</td>
</tr>
<tr>
<td>JCRC</td>
<td>Joint Clinical Research Centre Ltd</td>
</tr>
<tr>
<td>JLOS</td>
<td>Justice, Law and Order Sector</td>
</tr>
<tr>
<td>KShs</td>
<td>Kenya Shillings</td>
</tr>
<tr>
<td>KCC</td>
<td>Kampala City Council</td>
</tr>
<tr>
<td>KCCA</td>
<td>Kampala Capital City Authority</td>
</tr>
<tr>
<td>KCCL</td>
<td>Kasese Cobalt Company Ltd</td>
</tr>
<tr>
<td>KIBP</td>
<td>Kampala Industrial Business Park</td>
</tr>
<tr>
<td>KIU</td>
<td>Kampala International University</td>
</tr>
<tr>
<td>KM</td>
<td>Kilometers</td>
</tr>
<tr>
<td>KML</td>
<td>Kilembe Mines Ltd</td>
</tr>
<tr>
<td>KYC</td>
<td>Know your client</td>
</tr>
<tr>
<td>LAA</td>
<td>Administering the Lease and Assignment Agreement</td>
</tr>
<tr>
<td>LC</td>
<td>Letters of Credit</td>
</tr>
<tr>
<td>LDC</td>
<td>Law Development Centre</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>LPO</td>
<td>Local Purchase Order</td>
</tr>
<tr>
<td>LST</td>
<td>Local Service Tax</td>
</tr>
<tr>
<td>MAA</td>
<td>Memorandum &amp; Articles of Associations</td>
</tr>
<tr>
<td>MAAIF</td>
<td>Ministry of Agriculture Animal Industry and Fisheries.</td>
</tr>
<tr>
<td>MALG</td>
<td>Ministries, Agencies and Local Governments</td>
</tr>
<tr>
<td>MCP</td>
<td>Managing Compliance Program</td>
</tr>
<tr>
<td>MDA</td>
<td>Ministries, Departments and Agencies</td>
</tr>
<tr>
<td>MEMD</td>
<td>Ministry of Energy and Mineral Development</td>
</tr>
<tr>
<td>MI</td>
<td>Micro Insurance</td>
</tr>
<tr>
<td>MNSL</td>
<td>Mandela National Stadium LTD</td>
</tr>
<tr>
<td>MOD</td>
<td>Ministry of Defense</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance Planning and Economic Development</td>
</tr>
<tr>
<td>MOH</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MoWT</td>
<td>Ministry of Works and Transport</td>
</tr>
<tr>
<td>MSC</td>
<td>Micro Finance support Centre</td>
</tr>
<tr>
<td>MSI</td>
<td>Millennium Science Initiative</td>
</tr>
<tr>
<td>MTAC</td>
<td>Management Training Advisory Committee</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>MTIC</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
</tr>
<tr>
<td>MTWA</td>
<td>Ministry of Tourism, Wildlife and Antiquities</td>
</tr>
<tr>
<td>MW</td>
<td>Mega Watts</td>
</tr>
<tr>
<td>NAGRC &amp; DB</td>
<td>National Animal Genetic Resources Centre and Databank.</td>
</tr>
<tr>
<td>NARC</td>
<td>National AIDS Research Committee</td>
</tr>
<tr>
<td>NBC</td>
<td>National Bio-safety Committee</td>
</tr>
<tr>
<td>NBI</td>
<td>National Backbone Infrastructure</td>
</tr>
<tr>
<td>NCDA</td>
<td>Ngorongoro Conservation Area Authority</td>
</tr>
<tr>
<td>NCC</td>
<td>National Council for Children</td>
</tr>
<tr>
<td>NCD</td>
<td>National Council for Disability</td>
</tr>
<tr>
<td>NCDC</td>
<td>National Curriculum Development Centre</td>
</tr>
<tr>
<td>NCHE</td>
<td>National Council for Higher Education</td>
</tr>
<tr>
<td>NCS</td>
<td>National Council of Sports</td>
</tr>
<tr>
<td>NDA</td>
<td>National Drug Authority</td>
</tr>
<tr>
<td>NEC</td>
<td>National Enterprise Corporation</td>
</tr>
<tr>
<td>NFA</td>
<td>National Forestry Authority</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Government Organization</td>
</tr>
<tr>
<td>NHIL</td>
<td>Nile Hotel Institute Ltd</td>
</tr>
<tr>
<td>NIC</td>
<td>National Insurance Corporation</td>
</tr>
<tr>
<td>NIP</td>
<td>Nakawa In-Land Port</td>
</tr>
<tr>
<td>NISF</td>
<td>National Information Security Framework</td>
</tr>
<tr>
<td>NITA-U</td>
<td>National Information Technology Authority Uganda</td>
</tr>
<tr>
<td>NLU</td>
<td>National Library of Uganda</td>
</tr>
<tr>
<td>NMC</td>
<td>Nurses and Midwives Council</td>
</tr>
<tr>
<td>NMS</td>
<td>National Medical Stores</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loans</td>
</tr>
<tr>
<td>NRWL</td>
<td>Nalukolongo Railway Workshop Limited</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>NTR</td>
<td>Non Tax Revenue</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>NWC</td>
<td>National Women’s Council</td>
</tr>
<tr>
<td>NWSC</td>
<td>National Water and Sewerage Corporation</td>
</tr>
<tr>
<td>NYC</td>
<td>National Youth Council</td>
</tr>
<tr>
<td>OBT</td>
<td>Output Budget Technic</td>
</tr>
<tr>
<td>OVC</td>
<td>Aids Orphans and Vulnerable Children</td>
</tr>
<tr>
<td>PAC</td>
<td>Public Accounts Committee</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay as You Earn</td>
</tr>
<tr>
<td>PBU</td>
<td>Post Bank Uganda Ltd</td>
</tr>
<tr>
<td>PD</td>
<td>Post-dated</td>
</tr>
<tr>
<td>PDE</td>
<td>Procuring and Disposing Entity</td>
</tr>
<tr>
<td>PDU</td>
<td>Procurement and Disposal Unit</td>
</tr>
<tr>
<td>PERD</td>
<td>Public Enterprise Reform and Divestiture</td>
</tr>
<tr>
<td>PFA</td>
<td>Public Finance and Accountability</td>
</tr>
<tr>
<td>PFAA</td>
<td>Public Finance and Accountability Act</td>
</tr>
<tr>
<td>PFAR</td>
<td>Public Finance and Accountability Regulations</td>
</tr>
<tr>
<td>PGD</td>
<td>Post Graduate Diploma</td>
</tr>
<tr>
<td>PHD</td>
<td>Doctor of Philosophy</td>
</tr>
<tr>
<td>PI</td>
<td>Principal Investigator</td>
</tr>
<tr>
<td>PMU</td>
<td>Parastatals Monitoring Unit</td>
</tr>
<tr>
<td>PP</td>
<td>Public Procurement</td>
</tr>
<tr>
<td>PPDA</td>
<td>Public Procurement &amp; Disposal Act</td>
</tr>
<tr>
<td>PPDAR</td>
<td>Public Procurement and Disposal of Public Assets Regulations</td>
</tr>
<tr>
<td>PPE</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>PPMS</td>
<td>Procurement Performance Measurement System</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
</tr>
<tr>
<td>PR</td>
<td>Public Relations</td>
</tr>
<tr>
<td>PS</td>
<td>Permanent Secretary</td>
</tr>
<tr>
<td>PS/ST</td>
<td>Permanent Secretary/Secretary to Treasury</td>
</tr>
<tr>
<td>PU</td>
<td>Privatization &amp; Utility</td>
</tr>
<tr>
<td>PUSRP</td>
<td>Privatization &amp; Utility Sector Reform Project</td>
</tr>
<tr>
<td>PWDs</td>
<td>Persons with Disabilities</td>
</tr>
<tr>
<td>QA</td>
<td>Quality Assurance</td>
</tr>
<tr>
<td>RBA</td>
<td>Retirement Benefits Authority</td>
</tr>
<tr>
<td>RCDF</td>
<td>Rural Communications Development Fund</td>
</tr>
<tr>
<td>REA</td>
<td>Rural Electrification Agency</td>
</tr>
<tr>
<td>RIDS</td>
<td>Regional Inspectors of Drugs</td>
</tr>
<tr>
<td>ROP</td>
<td>Register of Providers</td>
</tr>
<tr>
<td>ROSS</td>
<td>Republic of Southern Sudan</td>
</tr>
<tr>
<td>RT</td>
<td>Right</td>
</tr>
<tr>
<td>RTGS</td>
<td>RTGS</td>
</tr>
<tr>
<td>RVR</td>
<td>Rift Valley Railway</td>
</tr>
<tr>
<td>S</td>
<td>Section</td>
</tr>
<tr>
<td>S &amp; T</td>
<td>Science and Technology</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operatives Organization</td>
</tr>
<tr>
<td>SAD</td>
<td>Single Administrative Document</td>
</tr>
<tr>
<td>SBI</td>
<td>Soleh Boneh International</td>
</tr>
<tr>
<td>SCIPHA</td>
<td>Strengthening Civil Society Fund to Improve HIV/AIDS and OVC Service Delivery in Uganda</td>
</tr>
<tr>
<td>SD</td>
<td>Station Diary</td>
</tr>
<tr>
<td>Sec.</td>
<td>Section</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>SJ</td>
<td>Secretary to the Judiciary</td>
</tr>
<tr>
<td>SLA</td>
<td>Service Level Agreement</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SPLO</td>
<td>Senior Procurement Officer</td>
</tr>
<tr>
<td>SSP</td>
<td>Sector Strategic Project</td>
</tr>
<tr>
<td>STA</td>
<td>Single Treasury Account</td>
</tr>
<tr>
<td>TAI</td>
<td>Treasury Accounting Instructions</td>
</tr>
<tr>
<td>TAI</td>
<td>Treasury Accounting Instructions</td>
</tr>
<tr>
<td>TB</td>
<td>Tuberculosis</td>
</tr>
<tr>
<td>TC</td>
<td>Technical Committee</td>
</tr>
<tr>
<td>TID</td>
<td>Tax Investigations Department</td>
</tr>
<tr>
<td>TIN</td>
<td>Tax Identification Number</td>
</tr>
<tr>
<td>TPCF</td>
<td>Tax Payments Commitment Form</td>
</tr>
<tr>
<td>TPS</td>
<td>Tourism Promotion Services</td>
</tr>
<tr>
<td>TREAT</td>
<td>The Regional Expansion Of ARV Therapy</td>
</tr>
<tr>
<td>TV</td>
<td>Television</td>
</tr>
<tr>
<td>UACC</td>
<td>Uganda Air Cargo Corporation</td>
</tr>
<tr>
<td>UACE</td>
<td>Uganda Advanced Certificate of Education</td>
</tr>
<tr>
<td>UBC</td>
<td>Uganda Broadcasting Council</td>
</tr>
<tr>
<td>UBOS</td>
<td>Uganda Bureau of Statistics</td>
</tr>
<tr>
<td>UBTEB</td>
<td>Uganda Business and Technical Examinations Board</td>
</tr>
<tr>
<td>UCC</td>
<td>Uganda Communications Commission</td>
</tr>
<tr>
<td>UCDA</td>
<td>Uganda Coffee Development Authority</td>
</tr>
<tr>
<td>UCE</td>
<td>Uganda Certificate of Education</td>
</tr>
<tr>
<td>UCI</td>
<td>Uganda Insurance Commission</td>
</tr>
<tr>
<td>UCL</td>
<td>Uganda Clays Limited</td>
</tr>
<tr>
<td>UDB</td>
<td>Uganda Development Bank LTD</td>
</tr>
<tr>
<td>UEB</td>
<td>Uganda Electricity Board</td>
</tr>
<tr>
<td>UEDCL</td>
<td>Uganda Electricity Distribution Company Limited</td>
</tr>
<tr>
<td>UEGCL</td>
<td>Uganda Electricity Generation Co Ltd</td>
</tr>
<tr>
<td>UETCL</td>
<td>Uganda Electricity Transmission Co Ltd</td>
</tr>
<tr>
<td>UGEA</td>
<td>Uganda Ginners and Cotton Exporters’ Association</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>UIIA</td>
<td>Uganda Investment Authority</td>
</tr>
<tr>
<td>UIICT</td>
<td>Uganda Institute of Information and Communications Technology</td>
</tr>
<tr>
<td>UIIRI</td>
<td>Uganda Industrial Research Institute</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>ULC</td>
<td>Uganda Land Commission</td>
</tr>
<tr>
<td>UMDPC</td>
<td>Uganda Medical and Dental Practitioners Council</td>
</tr>
<tr>
<td>UNBS</td>
<td>Uganda National Bureau of Standards</td>
</tr>
<tr>
<td>UNCC</td>
<td>Uganda National Cultural Centre</td>
</tr>
<tr>
<td>UNCST</td>
<td>Uganda National Council for Science and Technology</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNEB</td>
<td>Uganda National Examinations Board</td>
</tr>
<tr>
<td>UPDF</td>
<td>Uganda People’s Defense Forces</td>
</tr>
<tr>
<td>UPHL</td>
<td>Uganda Property Holdings Limited</td>
</tr>
<tr>
<td>UPL</td>
<td>Uganda Post Limited</td>
</tr>
<tr>
<td>UPTC</td>
<td>Uganda Posts and Telecommunications Corporation</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>URC</td>
<td>Uganda Railways Corporation</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>USE</td>
<td>Uganda Security Exchange</td>
</tr>
<tr>
<td>UTB</td>
<td>Uganda Tourism Board</td>
</tr>
<tr>
<td>UTCC</td>
<td>Uganda Trypanosomiasis Control Council</td>
</tr>
<tr>
<td>UTL</td>
<td>Uganda Telecommunications Limited</td>
</tr>
<tr>
<td>UTV</td>
<td>Uganda Television</td>
</tr>
<tr>
<td>UWA</td>
<td>Uganda Wildlife Authority</td>
</tr>
<tr>
<td>UWEC</td>
<td>Uganda Wildlife Education Centre</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VIPPU</td>
<td>Very Important Persons Protection Unit</td>
</tr>
<tr>
<td>WCO</td>
<td>World Customs Organization</td>
</tr>
<tr>
<td>WHT</td>
<td>Withholding Tax</td>
</tr>
</tbody>
</table>
PART ONE

1.0 RESPONSIBILITY OF THE AUDITOR GENERAL AND THE LEGAL FRAME WORK

This is Volume 4 of the Auditor General’s annual report to Parliament. The report presents a summary of the audit reports issued for Statutory Corporations, Boards, Councils and Institutes audited during the period 1st April 2013 to 31st March 2014.

1.1 Mandate and Legal Frame Work

Article 163 (3) of The Constitution of the Republic of Uganda, 1995 (amended), as amplified by Section 17 of the National Audit Act 2008, and other various Acts of Parliament establishing Statutory Corporations and State Enterprises require the Auditor General to examine and audit the accounts of these entities and submit annually a report to Parliament on the financial as well as value for money audits. In addition, the Auditor General is mandated to carry out special audits on any matter and report to Parliament. Section 18 of the National Audit Act also mandates the Auditor General to inquire into, examine, investigate and report, as he or she considers necessary, on the expenditure of public monies disbursed, advanced, or guaranteed to a private organization or body in which government has no controlling interest.

1.2 The Auditor General’s Responsibilities

The objective of the Auditor General’s work when conducting financial audits is to audit and report to parliament by expressing an independent opinion as to whether the financial statements, in all material respects, fairly reflect the results of operations of the entities in accordance with a given financial reporting framework and in the manner consistent with the respective Acts and Statutes establishing these entities as well as complying with the relevant laws and regulations applicable to financial matters. The audits are normally conducted in accordance with the International Standards on Auditing (ISA). These standards require that ethical requirements are complied with and the audit is planned and performed to obtain reasonable assurance as to whether the financial statements are free from material error or misstatement.

The audit also includes obtaining sufficient and appropriate evidence supporting the amounts and disclosures in the financial statements to provide a basis for making an opinion. The audit procedures selected depend on the auditor's judgment, including the
assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making 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 opinion will also be expressed as to whether or not any matters came to the Auditors’ attention that causes him/her to believe that material errors and non-compliance with laws and regulations, applicable to financial matters, had occurred.

1.3 **Responsibilities of Public Organizations on the Financial Statements**

It is the responsibility of the Directors of the audited entities to prepare financial statements which give a true and fair view of the state of affairs and operating results of their entities in accordance with International Financial Reporting Standards and the various Acts and Statutes establishing them. This responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The audit of financial statements does not relieve management, or those charged with governance of their responsibility.

1.4 **Representations by Management**

As part of normal audit procedures, the auditor will where necessary, request management of audited entities to provide written confirmations of oral representations that have been received from management during the course of the audit. After conducting audits based on the scope of the auditor’s responsibility stated above, the auditor shall report to management in writing, any significant weaknesses based on observations on the internal control system and other areas that come to his/her notice which he/she considers necessary to be brought to management’s attention by way of a Management letter.

2.0 **STATUS OF ACCOUNTS AUDITED DURING THE YEAR**

A total of 76 Statutory Corporations, Councils, and Institutes were audited during the
year under review. Some of the statutory entities do not have their accounting dates co-terminus with the government financial year. Therefore, four different accounting dates feature in the accounts of the entities as follows:

- Year ending 30th June,
- Year ending 30th September,
- Year ending 31st October and
- Year ending 31st December.

3.0 STATUS OF AUDITS

3.1 Completed Audits

As pointed out under paragraph 2.0, during the Period 1st April 2013 to 31st March 2014, a total of 76 entities were audited and completed as shown in the table below:

<table>
<thead>
<tr>
<th>No.</th>
<th>A. Unqualified</th>
<th>B. Qualified</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Uganda Electricity Distribution Co. Ltd.</td>
<td>Uganda Electricity Transmission Co. Ltd.</td>
</tr>
<tr>
<td>2.</td>
<td>Electricity Regulatory Authority</td>
<td>Kilembe Mines Ltd</td>
</tr>
<tr>
<td>4.</td>
<td>The Medical &amp; Dental Practitioners Council</td>
<td>Amber House Ltd</td>
</tr>
<tr>
<td>5.</td>
<td>The Nurses and Midwives Council</td>
<td>Allied Health Professionals Council</td>
</tr>
<tr>
<td>8.</td>
<td>Uganda National Examinations Board</td>
<td>Mandela National Stadium</td>
</tr>
<tr>
<td>9.</td>
<td>National Curriculum Development Centre</td>
<td>Management Training and Advisory centre</td>
</tr>
<tr>
<td>11.</td>
<td>Nakivubo War Memorial Stadium Trust</td>
<td>Uganda posts limited (2012)</td>
</tr>
<tr>
<td>12.</td>
<td>Uganda Wildlife Education Centre</td>
<td>Uganda Tourism Board</td>
</tr>
<tr>
<td>13.</td>
<td>New Vision</td>
<td>Nile Hotel International Limited</td>
</tr>
<tr>
<td>14.</td>
<td>Uganda Communication Commission</td>
<td>Uganda Wildlife Authority</td>
</tr>
<tr>
<td>15.</td>
<td>Uganda Institute of Information &amp; Communication Technology</td>
<td>Uganda Export Promotion Board</td>
</tr>
<tr>
<td>17.</td>
<td>Uganda National Council of Science &amp; Technology</td>
<td>Uganda Investment Authority</td>
</tr>
<tr>
<td>18.</td>
<td>National Information Technology Authority-Uganda</td>
<td>Hotel Tourism and Training Institute</td>
</tr>
<tr>
<td>21.</td>
<td>Uganda Property Holdings Limited</td>
<td>Insurance Regulatory Authority</td>
</tr>
<tr>
<td>22.</td>
<td>Uganda Industrial research institute</td>
<td>Dairy Development Authority</td>
</tr>
</tbody>
</table>
23. Uganda Petroleum Institute, Kigumba
24. National Social Security Fund
25. National Council for Disability
26. European Investment Bank Apex/ BOU Private Enterprise loan Scheme
27. Bank of Uganda
28. Uganda Development Bank
29. Capital Markets Authority
30. Uganda Bureau of Statistics
31. National Planning Authority
32. Uganda Revenue Authority
33. Public Procurement & Disposal of Public Assets
34. Privatisation and Utility Sector Reform Project (PUSRP)
35. Pride Micro Finance Uganda Limited
36. Micro Finance Support Centre Limited
37. Cotton Development Organisation
38. COCTU
39. Uganda Seeds Limited
40. Uganda coffee development authority
41. National Animal Genetic Resource Centre & Data Bank (NAGRIC)
42. Amnesty Commission
43. Uganda Air Cargo Corporation
44. NEC & Subsidiaries
45. National Water & Sewerage Corp

23. Law Development Centre
24. National Environment Management Authority
25. Civil Aviation Authority
C. Disclaimer

D. Lack of Signed Accounts
1. Uganda Broad Casting Corporation
2. National Council for children
3. Uganda National cultural centre
4. National Forestry Authority
5. National Drug Authority

3.2 Audits in Progress:

The following three audits were still in progress;

<table>
<thead>
<tr>
<th>Entity</th>
<th>Financial Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. National Housing and Construction Corporation ltd</td>
<td>2012</td>
</tr>
<tr>
<td>2. Uganda Printing and Publishing Corporation</td>
<td>2012</td>
</tr>
<tr>
<td>3. Post Bank</td>
<td>2013</td>
</tr>
</tbody>
</table>

4.0 BASIS AND TYPES OF OPINIONS ISSUED

During the Period 1st April 2013 to 31st March 2014 a total of 72 opinions were issued as analyzed below;

<table>
<thead>
<tr>
<th>Category of Audit Opinion</th>
<th>Number of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unqualified</td>
<td>45</td>
</tr>
<tr>
<td>Qualified</td>
<td>26</td>
</tr>
</tbody>
</table>
An analysis of the financial statements audited and type of opinions issued between 2010 and 2013 revealed the following:

<table>
<thead>
<tr>
<th>Opinions</th>
<th>YEAR</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unqualified Opinion</td>
<td></td>
<td>74</td>
<td>42</td>
<td>41</td>
<td>45</td>
</tr>
<tr>
<td>Qualified Opinion</td>
<td></td>
<td>57</td>
<td>25</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Disclaimer of Opinion</td>
<td></td>
<td>9</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Adverse Opinion</td>
<td></td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>141</td>
<td>69</td>
<td>70</td>
<td>72</td>
</tr>
</tbody>
</table>

Figure 2 showing comparison of types of opinions issued in the last four years:
**Unqualified opinions**

An unqualified audit opinion is issued when the Auditor is able to express an opinion and concludes that the financial statements of an audited entity give a true and fair view or are presented fairly, in all material respects, in accordance with the stated financial reporting framework and the various Acts and Statutes establishing the State Enterprises, Statutory Authorities and Commissions. In the year under review 45 unqualified opinions were issued.

**Qualified opinions**

An Auditor expresses a qualified opinion when: (a) The Auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. In the year under review 26 qualified opinions were issued.
Disclaimer of Opinion

The Auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the Auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The Auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the Auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements. During the year under review; I disclaimed an opinion on the financial statements of 1 public organisation.

Adverse Opinion

The Auditor shall express an adverse opinion when the Auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. During the year I did not issue any adverse opinion to any public organization.

5.0 KEY AUDIT FINDINGS

A summary of the key findings arising from the audit of statutory corporations is highlighted below:-

- **Uganda Communications Commission (UCC) is charged with implementation of the Digital Migration policy. The migration process from analogue to digital broadcasting was planned to last about two and half years effective July 2009 and the national broadcasting digital signal coverage would be covering 50% of the population by 2010, 80% of the population by 2011 and close to 100% by 2013 at which stage the analogue signal would be switched off. A review of the progress revealed that the commission was unable to complete the tasks despite a substantial investment of UGX.9,406,880,719 during the financial year.**

- **It was also noted that URA has Memoranda of Understanding (MOUs) with**
various individual tax payers. The arrears of taxes under this arrangement increased from UGX.8,153,545,149 in the previous year to UGX.37,194,597,895, in the current year. Five (5) companies alone accounted for 77.90% of the total debt. There is a risk of defaulting by the taxpayers.

- Good corporate governance practices require the existence of a properly filled governance structure that provides a mechanism for formulation and implementation of policies, decision making and monitoring of actions within corporations. It was noted however that a large number of corporate entities did not have governing boards/councils that were operating effectively. There were entities without strategic plans, failure to institute key operational policies and weak internal audit departments. In the circumstances, the entities operated without oversight and strategic direction and this affected achievement of national objectives.

- Review of the staffing status of a sample of 16 statutory authorities revealed that out of the establishment of 1,467 positions, only 891 are filled leaving 576 vacancies. This represented 39.3% understaffing, which has the effect of demotivating the overworked staff and constraining service delivery. I have advised management of the entities to continuously review their staffing needs and sequence recruitments in accordance with identified priorities.

- The National Forestry Authority (NFA) had 45 cases pending in court as of 3rd May 2013. The matters in contention included; Encroachment on forest reserves, land ownership disputes, alleged impounding of timber, illegal erection of masts, unlawful evictions and boundary conflicts among others. During the year the entity paid UGX.861,539,549 and accrued UGX.1,312,682,451 in legal expenses and court wards. I have advised management that a sustainable solution to the court cases would involve properly demarcating the central forest reserves and liaising with all stakeholders to address the matter.

- MDAs continue to experience poor management of assets manifested in inadequate fixed assets registers and undocumented usage of government vehicles. As a result, valuation and maintenance of the assets remains a challenge. Vehicle maintenance costs are not regularly assessed and remain
high. I have advised the affected entities to ensure Fixed Asset Registers are maintained and updated regularly. Vehicle repairs should be properly regulated by way of prior assessment of required repairs and post verification of repairs carried out.

6.0 **GENERAL AUDIT FINDINGS**

6.1 **Corporate Governance**

Organisations established by Acts of Parliament, the Public Enterprises Reform and Divestiture Act (Cap 98) and The Companies Act, Cap 110 are required to have governing bodies and other structures to enable good stewardship of public resources under their care. Review of governance practices in a number of organisations revealed weaknesses as summarised in the table below;

<table>
<thead>
<tr>
<th>S.N</th>
<th>Entity</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Nakivubo War Memorial Stadium</td>
<td>• Board members being signatories to bank accounts</td>
</tr>
<tr>
<td>2.</td>
<td>National Drug Authority</td>
<td>• No Board</td>
</tr>
<tr>
<td>3.</td>
<td>Uganda Communications Commission</td>
<td>• No Board</td>
</tr>
<tr>
<td>4.</td>
<td>Joint Clinical Research Centre (JCRC)</td>
<td>• No Board</td>
</tr>
<tr>
<td>5.</td>
<td>Nakibubo War Memorial Stadium</td>
<td>• Board members being signatories to bank accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Absence of key policies</td>
</tr>
<tr>
<td>6.</td>
<td>Uganda Industrial Research Inst</td>
<td>• Lack of Board of Directors</td>
</tr>
<tr>
<td>7.</td>
<td>Uganda Electricity Distribution Co. Ltd</td>
<td>• Benefits to board members are not clear</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No investment policy</td>
</tr>
<tr>
<td>8.</td>
<td>Uganda Post Limited</td>
<td>• Annual General Meeting not held</td>
</tr>
<tr>
<td>9.</td>
<td>Uganda Coffee Development Authority</td>
<td>• Absence of Board of Directors</td>
</tr>
<tr>
<td>10.</td>
<td>New Vision Printing &amp; Publishing Co Ltd</td>
<td>• Missing Appointment Letters for some Non-Executive Directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lack of board charter</td>
</tr>
<tr>
<td>11.</td>
<td>Uganda Broadcasting Corporation</td>
<td>• Absence of Board/Directors and Senior Management</td>
</tr>
<tr>
<td>12.</td>
<td>The Rural Communication Development Fund (RCDF)</td>
<td>• No Board</td>
</tr>
<tr>
<td>13.</td>
<td>Management Training and Advisory Centre</td>
<td>• No audit committee</td>
</tr>
<tr>
<td>14.</td>
<td>Uganda Investment Authority</td>
<td>• No board</td>
</tr>
<tr>
<td>15.</td>
<td>Uganda National Council of Science and Technology</td>
<td>• No Governing Council</td>
</tr>
<tr>
<td>16.</td>
<td>Uganda Railways Corporation</td>
<td>• No board</td>
</tr>
<tr>
<td>17.</td>
<td>Uganda Microfinance Co</td>
<td>• Board not fully constituted</td>
</tr>
<tr>
<td>S.N</td>
<td>Entity</td>
<td>Remarks</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>18.</td>
<td>National Animal Genetic Resource Centre &amp; Data Bank</td>
<td>• No board</td>
</tr>
<tr>
<td>20.</td>
<td>Nile hotel international limited</td>
<td>• No AGM held since 1994</td>
</tr>
<tr>
<td>21.</td>
<td>Amber House Ltd</td>
<td>• Board Chairman involved in the management roles</td>
</tr>
<tr>
<td>22.</td>
<td>Allied Health Professionals Council</td>
<td>• No Internal Audit Function</td>
</tr>
<tr>
<td>23.</td>
<td>Uganda Tourism Board</td>
<td>• No Internal Audit Function</td>
</tr>
<tr>
<td>24.</td>
<td>Electricity Regulatory Authority</td>
<td>• Absence of key policies</td>
</tr>
<tr>
<td>25.</td>
<td>Nurses &amp; Midwives Council</td>
<td>• No Internal Audit Function</td>
</tr>
<tr>
<td>26.</td>
<td>Uganda Property Holding Ltd</td>
<td>• No Performance Plans</td>
</tr>
<tr>
<td>27.</td>
<td>Coordinating Office for Control of Trypanosomiasis in Uganda – (COCTU)</td>
<td>• No strategic and IT plans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No Internal Audit Function</td>
</tr>
</tbody>
</table>

The weaknesses imply that the organisations are not properly guided in their strategies and negatively impacts on achieving of their overall objectives.

I have recommended that;

- Authorities responsible for these entities consider appointment of Governing boards in a timely manner.
- Establish board charters to guide the operations of board members and ensure that their roles are properly defined to avoid fusion with management roles.
- Management of these organisations should prepare and have the necessary policies approved by the boards.
- The internal audit functions should be streamlined and strengthened.

### 6.2 Staffing Levels

Review of the staffing status of a sample of 16 statutory authorities revealed that out of the establishment of 1,467 positions only 891 are filled leaving 576(39.3%) vacancies as indicated in the table below;

<table>
<thead>
<tr>
<th>Entity</th>
<th>Approved structure</th>
<th>Filled</th>
<th>Staffing shortages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Uganda National Bureau of Standards</td>
<td>457</td>
<td>234</td>
<td>223</td>
</tr>
<tr>
<td>2. National Council for Children</td>
<td>21</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>3. Uganda Nurses and Midwives Council</td>
<td>33</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>4. Uganda Wildlife Education Centre</td>
<td>42</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>5. Uganda Wildlife Training Institute</td>
<td>45</td>
<td>23</td>
<td>22</td>
</tr>
</tbody>
</table>
Understaffing has the effect of demotivating the overworked staff and constraining service delivery.

I have advised management of entities to continuously review their staffing needs and sequence recruitments in accordance with identified priorities.

### 6.3 Shortfall in Revenues

Examination of revenue performance in fourteen entities revealed that out of the total approved budgets of UGX.110,989,749,237, only UGX. 91,222,125,988 was realised resulting in shortfalls totaling to UGX.19,767,623,249. This has the effect of constraining the implementation of the planned activities. The affected entities are shown below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Budget</th>
<th>Actual</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Uganda Post Limited</td>
<td>24,254,634,673</td>
<td>18,596,319,710</td>
<td>5,658,314,963</td>
</tr>
<tr>
<td>2.</td>
<td>Uganda Tourism Board</td>
<td>400,000,000</td>
<td>242,073,767</td>
<td>157,926,233</td>
</tr>
<tr>
<td>3.</td>
<td>Nakivubo War Memorial Stadium Trust</td>
<td>551,872,277</td>
<td>356,022,351</td>
<td>195,849,926</td>
</tr>
<tr>
<td>4.</td>
<td>Uganda National Culture Centre</td>
<td>1,921,458,000</td>
<td>1,258,682,379</td>
<td>662,775,621</td>
</tr>
<tr>
<td>5.</td>
<td>National Environment Management Authority</td>
<td>5,799,827,000</td>
<td>4,681,353,889</td>
<td>1,118,473,111</td>
</tr>
<tr>
<td>6.</td>
<td>Uganda Wildlife Education Centre</td>
<td>2,397,101,000</td>
<td>2,010,970,217</td>
<td>386,130,783</td>
</tr>
<tr>
<td>7.</td>
<td>Uganda National Bureau of Standards</td>
<td>15,767,594,000</td>
<td>14,056,529,435</td>
<td>1,711,064,565</td>
</tr>
<tr>
<td>8.</td>
<td>Uganda Property Holdings</td>
<td>6,033,916,522</td>
<td>4,745,255,784</td>
<td>1,288,660,738</td>
</tr>
<tr>
<td>9.</td>
<td>National Animal Genetic Centre &amp; Data Bank</td>
<td>1,615,597,480</td>
<td>670,491,240</td>
<td>945,106,240</td>
</tr>
<tr>
<td>10.</td>
<td>National Planning Authority</td>
<td>8,896,059,578</td>
<td>8,785,700,578</td>
<td>110,359,000</td>
</tr>
</tbody>
</table>
I have advised the respective management teams to liaise closely with MoFPED to ensure that all appropriated funds are released and to always make realistic budgeting for NTR.

### 6.4 Funds not Accounted for

Funds amounting to UGX 1,107,981,647 spent by several entities remained unaccounted for contrary to financial regulations that require all expenditure to be accounted for by the year end. These expenditures were in form of official advances to individuals, fuel expenses, and utility bills lacking adequate supporting documents. I was not able to obtain reasonable assurance that the funds were applied to the intended activities.

The expenditures are summarised in the table below while the details are contained in the individual reports.

<table>
<thead>
<tr>
<th>S/N</th>
<th>NAME OF ENTITY</th>
<th>CATEGORY</th>
<th>AMOUNT (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Management Training and Advisory Centre (MTAC)</td>
<td>Doubtful expenditure</td>
<td>19,347,800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fuel expense not accounted for</td>
<td>33,266,556</td>
</tr>
<tr>
<td>2.</td>
<td>Rural Communication Development Fund</td>
<td>ICT trainings lacked supporting documents</td>
<td>52,000,000</td>
</tr>
<tr>
<td>3.</td>
<td>Nakivubo War Memorial Stadium Trust</td>
<td>Unsupported Utility Bills</td>
<td>19,500,000</td>
</tr>
<tr>
<td>4.</td>
<td>Uganda National Cultural Centre (UNCC)</td>
<td>Advances not accounted for</td>
<td>140,983,577</td>
</tr>
<tr>
<td>5.</td>
<td>National Planning Authority</td>
<td>Advances for field Activities</td>
<td>29,754,500</td>
</tr>
<tr>
<td>6.</td>
<td>National Animal Genetic Resource Centre and Data Bank</td>
<td>Advances for field Activities</td>
<td>8,496,000</td>
</tr>
<tr>
<td>7.</td>
<td>Dairy Development Authority (DDA)</td>
<td>Advances not accounted for</td>
<td>25,068,160</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurements not accounted for</td>
<td>405,547,829</td>
</tr>
<tr>
<td>8.</td>
<td>IRA</td>
<td>Fuel expenditure</td>
<td>40,309,103</td>
</tr>
<tr>
<td>9.</td>
<td>NPA</td>
<td>Advances not accounted for</td>
<td>29,754,500</td>
</tr>
<tr>
<td>10.</td>
<td>UIA</td>
<td>Fuel expenditure</td>
<td>191,579,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Workshop Funds</td>
<td>91,887,782</td>
</tr>
<tr>
<td>11.</td>
<td>UNCST</td>
<td>Advances not accounted for</td>
<td>20,486,340</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1,107,981,647</strong></td>
</tr>
</tbody>
</table>

I have advised the respective management teams to liaise closely with MoFPED to ensure that all appropriated funds are released and to always make realistic budgeting for NTR.

### 6.4 Funds not Accounted for

Funds amounting to UGX 1,107,981,647 spent by several entities remained unaccounted for contrary to financial regulations that require all expenditure to be accounted for by the year end. These expenditures were in form of official advances to individuals, fuel expenses, and utility bills lacking adequate supporting documents. I was not able to obtain reasonable assurance that the funds were applied to the intended activities.

The expenditures are summarised in the table below while the details are contained in the individual reports.
The Accounting Officers have been advised to enforce strict controls as provided for in their respective Financial Accounting Regulations and manuals.

6.5 Asset Management

A review of public organizations revealed that many of them continued to have poor or improper management of non-current assets. In several entities audited, there was apparent lack of ownership of properties as evidenced by absence of title deeds, incomplete fixed assets registers, non-revaluation of assets for long periods and failure to carry out impairment tests required by the accounting standards. The details of the entities involved are included in the following table:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Delayed Asset Disposal</th>
<th>No updated Asset Register</th>
<th>Assets Not Revalued</th>
<th>No titles/Expired Leases</th>
<th>No Asset Manuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nakivubo War Memorial Stadium Trust</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Electricity Regulatory Authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>UEDCL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>UEGCL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>UETCL</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Uganda Wildlife Authority (UWA)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Management Training and Advisory Centre (MTAC)</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Amber House Limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Uganda Post Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Uganda Seeds Company Limited (USCL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Uganda Broadcasting Corporation</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Uganda Post Limited (30th June 2011 &amp; 2012)</td>
<td>√</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>National Animal Genetic Resource Centre and Data Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Dairy Development Authority (DDA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

I have advised the respective Accounting Officers to;

- Ensure that legal ownership of properties is secured by acquiring land titles from relevant authorities.
- Undertake Revaluation of assets and impairment reviews as required by the Accounting Standards.
- Maintain fixed assets registers.
6.6 **Receivables**

UGX.201,823,663,006 was reported as receivables in the financial statements of various entities. Of the total receivables figure, UGX.136,000,000,000 relates to Bank of Uganda alone. The delays in the collection of funds held by debtors could lead to cash flow problems and ultimately affect the implementation of the planned activities.

I have advised the respective Accounting Officers to put in place robust credit policies or enforce the existing ones so as to ensure that any uncollected debtors are followed up for better liquidity.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank Of Uganda</td>
<td>136,000,000,000</td>
</tr>
<tr>
<td>2. Civil Aviation Authority</td>
<td>48,000,000,000</td>
</tr>
<tr>
<td>3. National Medical Stores</td>
<td>12,397,862,000</td>
</tr>
<tr>
<td>4. Uganda Broadcasting Corporation</td>
<td>3,333,052,000</td>
</tr>
<tr>
<td>5. National Social Security Fund</td>
<td>1,100,000,000</td>
</tr>
<tr>
<td>6. Allied Health Professional Council</td>
<td>345,825,000</td>
</tr>
<tr>
<td>7. Nakivubo War memorial Stadium</td>
<td>270,000,000</td>
</tr>
<tr>
<td>8. Uganda Development Bank</td>
<td>252,009,000</td>
</tr>
<tr>
<td>9. Dairy Development Authority</td>
<td>109,129,800</td>
</tr>
<tr>
<td>10. National Environment Management Authority</td>
<td>15,785,206</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>201,823,663,006</strong></td>
</tr>
</tbody>
</table>

**6.7 Procurement anomalies**

Several procurement anomalies were pointed out in my previous report, some of which have continued to occur. The most common non-compliance issues are summarised below and included in the respective entity reports.

- Failure to compile procurement plans and or failure to adhere to the procurement plans
- Lack of monthly procurement reports;
- Absence of a list of pre-qualified providers;
- Lack of procurement structures, e.g. a contracts committee and a professional
Procurement Officer;

- Use of wrong methods of procurement e.g. direct procurement method was used without justification;
- Failure to keep procurement records;
- Unplanned procurements;

The entities involved included the following:

<table>
<thead>
<tr>
<th>S/No.</th>
<th>ENTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The Uganda Nurses and Midwives Council (UNMC)</td>
</tr>
<tr>
<td>2.</td>
<td>Management Training and Advisory Center (MTAC)</td>
</tr>
<tr>
<td>3.</td>
<td>Nakivubo War Memorial Stadium</td>
</tr>
<tr>
<td>4.</td>
<td>Uganda Electricity Distribution Company Limited (UEDCL)</td>
</tr>
<tr>
<td>5.</td>
<td>Kilembe Mines Limited</td>
</tr>
<tr>
<td>6.</td>
<td>Uganda Land Commission (ULC)</td>
</tr>
<tr>
<td>7.</td>
<td>National Social Security Fund (NSSF)</td>
</tr>
<tr>
<td>8.</td>
<td>Dairy Development Authority (DDA)</td>
</tr>
<tr>
<td>9.</td>
<td>National Planning Authority (NPA)</td>
</tr>
<tr>
<td>10.</td>
<td>New Vision Printing and Publishing Corporation Ltd</td>
</tr>
<tr>
<td>11.</td>
<td>Public Procurement and Disposal Act (PPDA)</td>
</tr>
<tr>
<td>12.</td>
<td>Uganda Bureau of Statistics (UBOS)</td>
</tr>
<tr>
<td>13.</td>
<td>National Council for Higher Education</td>
</tr>
</tbody>
</table>

Failure to comply with PPDA Act and Regulations may result into inefficient and uneconomical procurements I have again advised the accounting officers, to ensure strict adherence with the Procurement laws.

### 6.8 Unremitted Statutory Deductions

During the period under review, Seven (7) entities failed to remit statutory deductions amounting to UGX.6,608,638,020 to the relevant statutory authorities. Of these amounts, unremitted taxes to Uganda Revenue Authority in respect of Pay As You Earn, Value Added Tax and Withholding Tax amounted to UGX.5,375,653,564 while deductions for Employee benefits relating to National Social Security Fund amounted to
UGX.1,232,984,426. The details are shown in the table below:

<table>
<thead>
<tr>
<th>S/No</th>
<th>ENTITY</th>
<th>NSSF (UGX)</th>
<th>TAXES (UGX)</th>
<th>TOTAL (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Uganda National Bureau of Standards</td>
<td>654,725,376</td>
<td>1,225,450,355</td>
<td>1,880,175,731</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Tourism Board</td>
<td></td>
<td>9,121,840</td>
<td>9,121,840</td>
</tr>
<tr>
<td>4</td>
<td>National Council for Children</td>
<td>7,410,000</td>
<td>34,230,000</td>
<td>41,640,000</td>
</tr>
<tr>
<td>5</td>
<td>Nakivubo War Memorial Stadium</td>
<td></td>
<td>805,936,279</td>
<td>805,936,279</td>
</tr>
<tr>
<td>6</td>
<td>Uganda National Cultural Centre (UNCC)</td>
<td></td>
<td>110,962,830</td>
<td>110,962,830</td>
</tr>
<tr>
<td></td>
<td><strong>Totals</strong></td>
<td><strong>1,232,984,426</strong></td>
<td><strong>5,375,653,564</strong></td>
<td><strong>6,608,638,020</strong></td>
</tr>
</tbody>
</table>

Noncompliance may attract penalties, litigations and attendant costs.

I have advised management to ensure that the statutory deductions are always remitted to the relevant authorities in a timely manner.

PART TWO

ENERGY SECTOR

7.0 UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED (UETCL) - YEAR ENDED 31ST DECEMBER, 2012

7.1 Amounts due to related parties

Included in the Company’s financial statements is a long outstanding balance of UGX.30.987 billion payable to UEGCL for price rebates in 2001/2 (at the commencement of the split of the UEB). This is also countered by a long outstanding receivable from UEDCL of UGX 37.1 billion dating back at the same time. These balances have been awaiting parliament’s approval for write-off since 2006. Therefore, I could not satisfy myself as to the validity of these long outstanding balances. This matter was reported in my previous audit reports to Parliament.

Management explained that the common Shareholder (Ministry of Finance, Planning and Economic Development) had been requested to authorize the write off of the due and
payable amounts among the respective Companies. The write off still awaits the Shareholder’s decision. I await the outcome of this process.

7.2 **Power Purchase Agreements:**

**Disparity in Power Purchase and Sales Agreements**

The company entered into Power Purchase agreements and Power Sales agreements with all its suppliers and customers, with specific terms and conditions. During the audit, it was noted that the Power purchase agreement signed between UETCL and Bujagali Energy Limited (BEL), requires UETCL to pay BEL for power purchases for the preceding month on or by the 15th day of the following month. In the event that this condition is not complied with, a penalty of 11% per annum (fixed rate) plus 2% per annum is charged on the unpaid amount. BEL invoices both in US Dollars for the capacity charge and Uganda Shillings for the VAT component. On the other hand, Power Sales agreement between Umeme Ltd and UETCL also requires that UMEME pays for supplied power for the preceding month on or by the 15th day of the following month. If this condition is not complied with, then a penalty of libor +3% per annum is applied on the unpaid amount till the date of full payment. Umeme Ltd is billed in Uganda Shillings. In view of the disproportionate penalty rates and differences in billing currencies, cashflow management is affected thereby resulting into the company incurring more penalties on BEL than what it actually charges Umeme Ltd. The timing of UMEME payments to UETCL may affect the timing and payments of the latter to BEL resulting into huge penalties. Furthermore, the mismatch in currencies exposes the company to exchange rate volatility.

Management undertook to take up the matter with the relevant Stakeholders. I await the outcome of this undertaking by management.

7.3 **Non remittance of VAT on power purchases**

The power purchase agreements for Jacobsen, Aggreko, Electro-Maxx, states that the Government of Uganda is responsible for paying the VAT component on energy supplies on the invoices from the suppliers. However, it was noted that the IPPs charge VAT on their sales to UETCL who in turn charges VAT on sales to its customers. Section 21(5) of the VAT statute Cap 349 considers the subsidy component contributed by the Government to be VAT exempt. This means that UETCL incurs full input VAT, but can only charge output VAT on the component that is not subsidized. This has left UETCL with a large VAT debt. Additionally, during the year no payment was made in relation to
the VAT component charged on energy purchases and this has been accruing since 2010. The amount as at 31 December 2012 is shown below:

<table>
<thead>
<tr>
<th>Power Supplier</th>
<th>VAT Period</th>
<th>VAT (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacobsen</td>
<td>July 2010 to Dec 2011</td>
<td>57,743,375,429</td>
</tr>
<tr>
<td>Aggreko</td>
<td>July 2010 to Dec 2011</td>
<td>12,096,981,137</td>
</tr>
<tr>
<td>Electro-max (U) Ltd</td>
<td>July 2010 to Dec 2011</td>
<td>12,005,369,906</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>81,845,726,472</strong></td>
</tr>
</tbody>
</table>

This is an indication of non-compliance with the Power Purchase Agreements and has exposed the power suppliers to legal actions and penalties by the Uganda Revenue Authority. I have advised management to adhere to all the power purchase agreements signed between the company and the power suppliers.

7.4 **Fixed assets not adequately insured**

The company has a policy of insuring its assets to reduce on the risks associated with insurable operations. Ideally, the insured value of the assets should not be less than the Net Book Value of the assets. It was noted that the assets of the company were not adequately insured as shown below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Net Book value</th>
<th>Sum insured</th>
<th>Variance</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>18,153,507,683.00</td>
<td>6,905,983,653</td>
<td>11,247,524,030</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Substations</td>
<td>109,219,257,722</td>
<td>75,357,481,896</td>
<td>33,861,775,826</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Communication equipment</td>
<td>5,298,501,562</td>
<td>1,567,118,345</td>
<td>3,731,383,217</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Computers</td>
<td>2,507,667,127</td>
<td>801,677,169</td>
<td>1,705,989,958</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>2,593,978,632</td>
<td>1,643,083,068</td>
<td>950,895,564</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Office machines</td>
<td>450,394,884</td>
<td>290,005,182</td>
<td>160,389,702</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Scada Equipment</td>
<td>4,219,033,746</td>
<td>3,158,405,582</td>
<td>1,060,628,164</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Furniture</td>
<td>534,934,837</td>
<td>215,545,601</td>
<td>319,389,236</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td>Tools and equipment</td>
<td>2,772,446,327</td>
<td>1,485,797,874</td>
<td>1,286,648,453</td>
<td>Inadequately insured</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>145,749,722,520</strong></td>
<td><strong>91,425,098,370</strong></td>
<td><strong>54,324,624,150</strong></td>
<td></td>
</tr>
</tbody>
</table>

This implies that in case of any unforeseen eventualities, the company cannot recover all
assets from the insurance company. Understating the value of the insured assets is also irregular.

Management explained that the amount of insurance cover depends on the funds availed through the Tariff approved by Electricity Regulatory Authority. They further explained that most of the assets indicated as not insured (Substations, buildings, SCADA etc) were items capitalised from the Bujagali Interconnection project which by the reporting date were still under the defects liability period and therefore under the responsibility of the contractor. I have advised management to ensure that all assets are adequately insured to avoid losses in case of unforeseen eventualities.

7.5 **Fleet Management System**

During the review of the company’s transport policy in regard to replacement of vehicles, it was observed that vehicles are supposed to be retired and replaced after attaining a mileage of 200,000 km or after five years whichever occurs first. However, UETCL’s fleet comprises of old vehicles with 58% (69 vehicles) being above 5 years in operation that are due for replacement. Details are shown in the table below;

<table>
<thead>
<tr>
<th>Category</th>
<th>Qty below 5 years</th>
<th>Qty above 5 years and due for replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Lorries</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Pick ups</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>Specialized vehicles</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Station Wagons</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>69</strong></td>
</tr>
</tbody>
</table>

I indicated to management that an old fleet is less efficient and contributes to higher fuel consumption rate as well as high repairs and maintenance costs as shown below;

Summary of vehicle maintenance expenses for three years.
<table>
<thead>
<tr>
<th>Item</th>
<th>2012 UGX (000)</th>
<th>2011 UGX (000)</th>
<th>2010 UGX (000)</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport costs</td>
<td>1,793,303</td>
<td>1,542,952</td>
<td>1,495,521</td>
<td>20%</td>
</tr>
</tbody>
</table>

Management explained that the Company operates a fleet, 67% of which is over 7 years old and over 200,000Km in mileage and this tends to impact the level of repairs, maintenance and fuel consumption costs. Every year, UETCL presents its revenue requirement including a budget for vehicle replacement and acquisition but due to tariff challenges, the Electricity Regulatory Authority (the Regulator) is constrained to provide the required capital funding in the tariff.

I have advised management to adopt a phased approach for replacement of its old fleet to reduce the impact on the tariff.

### 7.6 Pension Settlement of former UEB employees

In 2001 the Government disbanded Uganda Electricity Board (UEB) and formed three successor companies namely; Uganda Electricity Transmission Company Limited (UETCL), Uganda Electricity Distribution Company Limited (UEDCL) and Uganda Electricity Generation Company Limited (UEGCL). The employees of UEB were retired from UEB and distributed among the three companies. These employees were entitled to terminal benefits that were not paid prior to the disbandment of UEB. The employees later filed a lawsuit against the three companies and the Attorney General, and in May 2013 the court ruled that the three companies were liable to a tune of UGX 47,972,421,017. This amount was divided among the three companies and UETCL ended up with a liability of UGX 13,086,833,183 that was to be paid to the former employees.

In September 2012, UETCL requested Government and Electricity Regulatory Authority for authorization to release UGX 12,000,000,000 towards settlement of the liability and this authority was granted on 27 November 2012 allowing the company to release the money to the official receiver. In the communication, Government (MOFPED) indicated that the money would be refunded after approval of budget. The refund had not been made to the company by Government at the time of reporting.

As a result, the Company is not only exposed to the risk of depletion of its working
capital but is also faced with going concern challenges.

I have advised management to liaise with all stakeholders involved and ensure that a refund is made to the company by Government.

7.7 **Lack of emergency equipment**

The Uganda Electricity Transmission Company Limited (UETCL) operates a transmission infrastructure that includes high voltage transmission lines and steel tower lattice structures. The Company is also improving the infrastructure to meet the load demand requirements of the Country and its neighboring countries.

It was noted that the budgets have always been submitted by management and approved by the Board for critical spares and emergency/contingency inventory such as emergency restoration towers and mobile substation among others. However, these items are excluded from the budgets that are eventually approved by the Regulator (ERA). Also noted was that there is rampant vandalism of tower parts especially in the Kakira Sugar works and Mabira Forest Corridor despite collaboration of UETCL with security agencies. This vandalism is costing the company huge amounts of money for replacement.

The investment by UETCL in the transmission infrastructure without adequate equipment for emergency and disaster management may lead to heavy losses in the event that unforeseen events occur.

Management undertook to ensure that adequate budget provision is made to enable procurement of the critical spares and emergency inventory.

I await the outcome of this undertaking by management.

7.8 **Inadequate Training Policy**

A company’s training policy represents the commitment of its top management to staff competence and ensures that all employees are trained to competently and effectively undertake their roles.

According to the terms and conditions for staff of UETCL, staff development is a continuous process which must be planned, carried out and reviewed in accordance with plans and company approved training programmes. In addition, it is a requirement that
identification of training needs and development of training programmes will be through systematic analysis.

During the audit, it was noted that training costs for the year amounted to UGX 2,093,989,101. However, a review of the Human Resource Function revealed that the existing Training Policy was approved in 2002 and is not supported by a structured training plan. There are no prescribed procedures followed by management in ensuring that training needs of staff are identified and plans made to undertake the training.

There is a risk that some of the training opportunities offered to staff were not in congruent with the Company’s training requirements.

I have advised management to develop continuous assessments of staff so as to identify their training needs and areas that need development. In addition, there is need to ensure that the existing training policy is revised so that it matches with the current challenges and needs of both the Company and its human resource.

8.0 KILEMBE MINES LIMITED - YEAR ENDED 30TH JUNE, 2013

8.1.1 Inadequately supported Deferred Tax Asset

In my report to Parliament for the previous year ending 30th June 2012, I reported that a deferred tax liability had stagnated at a constant figure of UGX 3,756,813,191, since 2001. The balance was also not supported with appropriate evidence such as the URA Tax audit report and as such, I could not confirm the reasonableness of that liability.

In response, management indicated that the balance represented a provision that had been made in line with the IAS 12, Income Taxes, as a result of temporary taxable differences on Assets and investments revaluation.

Following my recommendation, a review of the provision was made by management and a comparative balance sheet with an adjustment of UGX 11,466,278,422 was prepared. This resulted into a deferred tax asset of UGX 7,709,464,643. This balance increased to UGX 7,896,775,585 as at 30th June 2013. However, the following disclosures were not made in the financial statements contrary to IAS 12, Income Taxes:

- Whether the likelihood that taxable profits would be available against which the unused tax losses could be offset, was assessed in accordance with the criteria
outlined under IAS 12 para 36 of the IAS.

- The nature of the evidence supporting its recognition as required under paras 35 and 82.

In the above circumstances, I could not confirm the reasonableness of the deferred tax asset balance. I have advised management to make the necessary disclosures as required by IAS 12 Income Taxes.

### 8.1.2 Lack of on-lending agreements

Under Note 10(iii) to the financial statements, there was a loan by Government of Uganda obtained from the Democratic Republic of Korea loan of US$.2,065,381 for the Company but was not supported with an on-lending agreement between the Company and GoU (MoFPED). The interest has continued not to be accrued in the financial statements. In the absence of an on-lending agreement, the status of this amount used to recapitalize the company is still not properly defined. This matter has been outstanding for a long time and has been part of my previous reports to Parliament.

### 8.1.3 Loan from Ministry of Finance, Planning and Economic Development

Under Note 14, it is indicated that the Company signed a Memorandum of Understanding with the MoFPED for a loan of UGX.4.7bn for settling a dispute between KML and B.M. Steel Ltd. for breach of contract on supplies and power unavailability. However, I was not availed with evidence of the Board of Directors approval of this Loan together with its terms and conditions. This matter has also been reported in my previous reports to Parliament.

### 8.1.4 Encroachment on Kilembe Mines Land

Kilembe Mines Ltd. owns two pieces of land in Kasese town (Katadoba Land leasehold Reg.458 Kasese, Plots No. 96-100 covering Kiteso land and Golf course). However, a review of management minutes regarding this land; (Minute number 11/11/2012 (2) of management meeting of 6th/11/2012) indicated that the Muheka Family had grabbed parts comprised and occupied by of the Golf Course land and part of Kasese Cobalt Company Ltd (KCCL) where permanent structures were being constructed.

There is risk of loss of company land or incurring exorbitant compensation amounts in the near future. Whereas management explained that opening of the boundaries had been
done and a Caveat placed, the matter is not resolved. I have advised management to follow-up to have this matter resolved.

8.1.5 Unplanned procurements

Section 31(f) of the Public Procurement and Disposal Act (PPDA) 2003 requires Procurement and Disposal Unit (PDU) to plan for procurement and disposal activities of the entity. However, it was noted that procurements worth UGX.197,827,430 made during the year were not planned for by the PDU. Unplanned procurements have an effect of distorting the budget implementation.

Although management attributed part of the expenditure (UGX 146,117,500) to emergencies of May 1st, 2013 floods, there were no documents availed to show the breakdown and details of how the whole amount was spent. The non-emergency procurements ought to have been planned for as required by the Law. I have advised management to ensure that procurements are properly planned and in cases of emergencies, they should be handled in accordance with the PPDA Law and guidelines.

9.0 UGANDA ELECTRICITY GENERATION COMPANY LIMITED (UEGCL) - YEAR ENDED 31ST DECEMBER, 2012

9.1.1 Impairment of assets

The company’s plant (with a book value of UGX.400 billion) is operating below 50% of the installed capacity which is an indication that the plant could be impaired. The company is hence required under IAS 36 to perform an impairment assessment of the plant at the reporting date. However, no impairment assessment was done as at 31 December 2012.

The company engaged a consultant to perform an impairment assessment in the prior years (as at 31 December 2009) but the report from this assignment did not address the issue of impairment as required under IAS 36. In the circumstances, the reported assets may not be fairly stated.

Management explained that an impairment test ought to have performed by end of 2012 but this was not done due to budget constraints. Management however undertook to carry out the exercise in 2013.
I have advised management to ensure that an impairment review is undertaken as per the requirements of the Standard.

9.1.2 **Debt service and depreciation fee components**

The Concession and Assignment Agreement between the company and the operator of the plant, Eskom Uganda Limited, gives the company a right to charge debt service and depreciation components as part of the concession fees charged by the company to the operator. These components were not billed during the year because they were not included in the tariff methodology for the year approved by Electricity Regulatory Authority. However, the Concession and Assignment Agreement was not amended to remove this right and the fees are therefore billable and should be accrued for. The company has not accrued for the fees billable during the year. As a result, the revenue for the year is understated and the interest and depreciation expenses are not matched with revenue.

9.1.3 **Government of Uganda loans**

As indicated in Note 21, the company has loans due to Government of Uganda made up of the ‘UEB refinancing loan’ of UGX.37.7 billion and the World Bank-IDA loan of UGX.74 billion. The amounts confirmed by Government of Uganda were less than the reported amounts by UGX.5.8 billion and UGX.9.6 billion respectively. These variances were not reconciled. In the circumstances, I could not establish the validity of the reported amounts.

9.1.4 **Tax withhold on Interest of fixed deposits not accounted for**

The company earns interest from fixed deposits from which tax is withheld. The withheld tax should then be recognized as an asset since it is recoverable from the tax authorities. A comparison of the interest earned in the prior years and the WHT recoverable amount recognized in the financial statements of UGX.254 billion indicates that the WHT recoverable could be understated. The company’s practice is to recognize interest net of the withholding tax. In the circumstances, interest income and WHT recoverable are misstated as these are not recognized in the financial statements. This complicates the monitoring of the WHT recoverable and could lead to loss of company resources as the tax withheld may not be followed up and utilized.
Management in response acknowledged the recognition of net interest income from term deposits in prior years. The team has now commenced a process to collect all the WHT certificates from the concerned banks so that interest income could be booked as gross, and WHT so far paid will be recognized as an asset.

I have advised management to investigate and compile all the tax withheld from interest income in the prior years to-date. The accumulated WHT should be recognized in the financial statements and utilized where appropriate. Interest income earned should be recognized gross of any WHT and the tax withheld should be recognized as an asset.

9.1.5 Non reconciliation of VAT Returns

Included in Note 16 in the financial statements is VAT recoverable of UGX.524,163,705. This amount was not reconciled to the VAT returns for the month of December 2012 which had VAT payable of UGX.48,943,357. In the circumstances, the reported recoverable WHT and VAT amounts may not be fairly stated.

Management explained that the VAT balance in the books of UEGCL relate to the years when the transition from UEB to UEGCL was not yet streamlined. The billings and collections in the first year of UEGCL were being done either by UEB or UEGCL. The recording of the transactions posed a challenge. Much as the VAT was paid in full, the records remained incomplete hence the huge balance and that Management was in the process of updating and completing the records so that the balancing item could be cleared.

I have advised management to reconcile the VAT returns to the general ledger and, going forward, this should be done regularly.

9.1.6 Unsupported balances

The following balances were not adequately supported with underlying financial and accounting records:

- The amount due to Government of Uganda of UGX.33.828 billion included in note 20 in the financial statements.
- Amounts due to Uganda Electricity Transmission Company Limited and Uganda Electricity Distribution Company Limited of UGX.10.194 million and UGX.27.299 million
respectively included in note 15(iii) in the financial statements.

- Amounts due from Uganda Electricity Distribution Company Limited of UGX.65.612 million included in note 15(ii) in the financial statements

In view of the foregoing, I could not confirm whether the reported amounts were derived from underlying records.

9.1.7 Long Outstanding Payables and Receivables

The company had significant amounts relating to long outstanding payables and receivables which have not been cleared to date. Some of these amounts were inherited from UEB.

The company had no adequate supporting documents for some of these amounts and there was no clear plan of how these amounts were to be cleared. This raised doubt over the eligibility of the payable and the recoverability of the receivables. In addition, the actual amount to be paid could be significantly different due to variations in the exchange rates over time.

Management explained that these long outstanding payables and receivables date from the time of UEB. When UEGCL was created, the contracts that were then running were passed on to UEGCL. However, residual balances on those accounts have remained un-cleared since. Management had drawn up a draft policy to enable writing off all those long outstanding balances.

I have advised management to come up with a plan of action regarding the long outstanding creditors and debtors. The creditors should be followed up to establish whether they are recoverable or not and clean up the company’s records by removing those that are not recoverable. The long outstanding receivables should be assessed for recoverability and all impaired amounts should be written off after Board of Director’s approval. Amounts due from related parties should be followed up at policy level.

9.1.8 Delayed submission and review of performance reports

It was noted that reports for a particular period were not prepared and reviewed in a timely manner. For example the 2011 annual inspection report for Kiira and Nalubaale was finalized and presented in May 2012. This was almost half way into the following year. The January – June 2012 management report was also finalized and presented in
October 2012. In the circumstances, there is a risk of delayed response to issues arising especially those that may require immediate corrective action.

Management explained that inspections are done and management reports prepared on a timely basis.

The finalization of the inspection report took a little longer because explanations were awaited from Eskom for the issues raised in the report. The Management report was presented late – in October 2012 because before then the mandate of the Board had not been renewed. They further stated that measures had been put in place to ensure that reports are produced and presented in a timely manner.

I have advised management to ensure that reports are prepared and presented in a timely manner to allow further timely utilization.

9.1.9 **Weakness in the management of journal entries**

The company’s accounting system is designed in such a way that journal entries posted by the accountant have an immediate effect on the general ledger without any review and authorization by a more senior staff. Therefore, the accountant has super user rights to the system. This increases the risk of errors and misstatements in the financial statements as errors and/or omissions made by the accountants may not be detected and corrected.

Management explained that this was a shortcoming inherent in the system when it was acquired from UEB. However, the process to acquire a new Accounting System has already started where tighter controls were to be introduced besides a host of other improvements.

I have advised management to consider to design and install a journal postings review and approval functionality in the SUN system.

9.1.10 **Fixed Assets not engraved**

During the period, the company purchased assets worth over UGX.800 million. Of these, UGX.600 million related to vehicles and the rest were office items including computers and furniture. It was noted that none of the office items had been engraved by the time of audit. In the circumstances, there is a risk of loss of the assets with limited chances of recovery.
Management explained that the Company acquired additional assets in 2012 and a firm was procured to engrave the new assets but the process was terminated because the firm failed to deliver. Another firm had been selected and work was expected to be completed in the first week of June 2013.

I have advised management to expedite the process of engraving the company’s assets.

9.1.11 Incorrect computation of the staff loan benefit

A review of the interest benefit computation revealed that the benefit had been wrongly computed. The Income Tax Act requires that where the company provides loans to employees at an interest rate lower than the statutory rate, the difference is a benefit to the employees that should be taxable on the beneficiary employee. It was noted that the company was underpaying PAYE due to wrong computation of the benefit. This exposes the company to the risk of paying penalties.

Management explained that the Loan Amortization schedule (software in excel) was used in the computation of the loan repayments. The same software was used in calculating the Power IV Loan and Government of Uganda Loan repayments.

The wrong computation of the benefit was only made when management assumed that the rate was 13% instead of 20%. Efforts were made in the previous year to contact URA for advice on the applicable rate and the email response from the URA was that the rate was still 13%. Management undertook to correct the mistake and recover the underpaid PAYE from staff for onward remittance to the Tax Authority.

I have advised management to ensure that these benefits are correctly computed and included in the PAYE computation. The incurred tax exposures should be computed and remitted to URA.

10.0 UGANDA ELECTRICITY DISTRIBUTION COMPANY LIMITED (UEDCL) - YEAR ENDED 31ST DECEMBER, 2012

10.1.1 Irregular payment of salaries to contract staff

Section 3.3 (5) of the company’s Human Resource Manual states that “A staff member who wishes to renew his contract shall, in three months, prior to the expiry of the contract, make a written application for the renewal of the contract. In addition,
section 3.3 (6) states that “the appointing authority shall inform the employee, at least one month prior to the expiry of the contract, whether or not the contract is to be renewed”. However, there was no management’s adherence to the requirement of the manual as some staff had expired contracts that had not been renewed.

Failure on the part of the appointing authority to communicate as provided for in the Human Resource Manual could subject the staff to a state of uncertainty. In addition, the Company would have no basis of taking legal action against such staff should their actions and behavior lead to litigation against the Company.

Management explained that all the 7 contracts had fully been renewed filled, although there were delays due to the appraisal process. I have advised management to always ensure adherence to the guidelines and procedures enshrined in the Human Resource Manual.

10.1.2 Unclear benefits to board members

The company incurred UGX.192,300,615 on board expenses such as training fees, air tickets, per-diem and warm clothing among others that are not provided for in the memorandum and Articles of Association (MAA). Though management indicated that the courses were related to the business of the company and had been budgeted for, it was noted that the two week trainings were management-improvement in nature and not strategy-focused or corporate-governance training that the board members would be in need of.

The practice may not only give rise to a conflict of interest but also constrains management in the attainment of the operational objectives of the Company. In addition, the practice sets the wrong tone at the top.

I have advised management to ensure that training courses for the board members comply with provisions of the MAA and relate to the strategic direction of the company.

10.1.3 Weak controls on plant, property and Equipment

International Accounting Standard (IAS) 16 Property Plant and Equipment defines Property Plant and Equipment as tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. However, during the audit it was
noted that;

- The company presented reports with errors by bringing assets on statement of financial position that were already scrapped off and disposed by Umeme Ltd.

- The company restated already written-off (fully depreciated) assets as new assets purchased in January 2009 when they had actually been bought in 2002 and 2003.

As per the company’s depreciation policy, the assets were supposed to have been written off in 2007. It was noted that most of the trucks used in delivering materials on sites that were written off four years back by UEDCL and Umeme Ltd were still in good mechanical condition and could be used several more years. These were among the vehicles valued at UGX 2, 265,346,392 and therefore qualified to earn Return on Investment.

This implies that the position of the assets is likely to be misrepresented in the financial statements.

Management explained that there was a communication gap between the company and UMEME regarding the scrapped assets.

I have advised management to put in place controls that would ensure accurate reporting and consider the possibility of attaching nominal values to assets whose values were fully depreciated but still in use in order to account for such Assets.

10.1.4 Lack of Investment Policy

A good investment policy provides a road map to develop specific strategies and detailed investment guidelines. It was noted that the Company had about UGX 25 billion in short-term investments with DFCU and Standard Chartered Bank but there was no clear investment policy detailing the investment objectives, strategies, timing and evaluation of each investment decision.

In the circumstances, management of risk through portfolio diversification is not properly guided.

Management explained that UEDCL was using the financial policy and procedure manual to manage the treasury function and since core business of the company is not through venture capital investments any working capital say cash balances as they fall due is managed under the available policy.

I have advised management to put in place an investment policy that highlights the goals,
objectives and strategies of investment decisions.

10.1.5 Unplanned procurement of equipment

The procurement law requires entities/organisations to properly plan their procurements for the year basing on their budgets and anticipated cash flows. However, it was noted that the procurement of scheme installation equipment was not planned and as such a number of installation equipment were not used. For example audit noted that items worth UGX.599,753,678 that were procured and received on 14 January 2011 were still lying in stores at Lugogo at the time of audit.

Management explained that procurement of the equipment on the distribution network had a long lead time and therefore, it is appropriate to have stock for immediate replacement, emergency works and all works done always have Bills of Quantities (BoQs) in line with the minimum re-order levels and re-order quantities as some stock has to be retained for operational purposes.

I have advised management to ensure that there is procurement planning at the beginning of each financial year in order to realize best value for money and transparency.

10.1.6 Fraud at Moroto off-grid station

Section 6.4 of the Financial Policies and Procedures Manual, states that ‘it is company policy that no cash should be directly received by employees but through company bank accounts and the customer presents a bank deposit slip to the senior accountant/accountant to be issued with a company receipt’.

During inspection of Moroto off-grid station, it was noted that the Accounts Assistant carried out his day-to-day work without close supervision which led to fraudulent practices at the station. A review of customer complaints revealed that most of them were related to cash payments made to the Accounts Assistant either for connections or monthly bills for which forged or no receipts were issued as indicated in the table below;
<table>
<thead>
<tr>
<th>Name of payee</th>
<th>Date</th>
<th>Amount paid (UGX)</th>
<th>Receipt No</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Lokawu Micheal | 09 Nov 2012 | 200,000           | 4240044194          | • Complaint not addressed
                                                                  • No adjustments were made in the subsequent bill |
| Abdu Nafi    | 22 Oct 2012 | 30,000            | 4240044095 &        | Subsequent events show that
                                                                  4240044096          | UGX.3000 was deducted from
                                                                  | | the customer’s account while |
                                                                  | | UGX.27,000 remained unaccounted for |
| Regina Mundil| 29 Nov 2012 | 50,000            | 4240045689          | • Complaint not addressed
                                                                  • No adjustments were made in the subsequent bill |

Related to the above malpractices at the station was a stolen Honda XL 125 UAC 638U motorcycle for which no investigations were undertaken. This motorcycle therefore remains unaccounted for.

Non adherence to the requirements of the manual coupled with lack of close supervision for staff collecting cash and then later the transfer of the station manager without any investigations undertaken could be an indication of management laxity on fraud and mismanagement of the company resources by staff.
I have advised management to strengthen the internal controls around cash collections and ensure that the cases highlighted are investigated and action is taken.

11.0 ELECTRICITY REGULATORY AUTHORITY (ERA) - YEAR ENDED 30TH JUNE 2013

11.1.1 Failure to enforce approved tariffs

A Review of the Board minutes, (Min 12/305/2013) revealed that UEDCL was charging domestic consumers a general grid tariff of UGX.524.5 per unit instead of the approved domestic tariff of UGX.426.1 per unit in the off-grid areas without approval of ERA.

Failure to regulate the tariff charges compromises the role played by the regulator. In addition, ERA is exposed to risk of litigation and attendant costs which would otherwise
be avoided.

In their response management confirmed that the UEDCL charged the tariff without express approval of the Authority and that the Company received a caution from the Authority. Subsequently the Company applied for an off-grid sales and distribution license whose conclusion has been delayed by issues relating to the lease of assets from REA.

I advised management to ensure that grid charges are only billed as approved by the authority.

11.1.2 Un licenced operations of Uganda Electricity Distribution Company Limited (UEDCL)

Section 57(1) of the Electricity Act, 1999 requires players in the industry to hold valid licences issued by ERA, which should be renewed in accordance with Section 45 (3) of the same Act. A review of the Board minutes (Min 9/296/2013) revealed that UEDCL was issued with a distribution license number 083 effective 1st January 2011 for two years and expired on 1st January 2013. Audit noted that UEDCL continued to operate without renewing the license thereafter. Failure to renew the license exposes the Authority to a risk of loss of revenue.

Management explained that UEDCL had obtained a lease of these assets from Rural Electrification Agency (REA) which had since expired. In the circumstances the Authority could not renew a license when the operator had no legitimate ownership or control of the land and the assets installed thereon. This matter was addressed to both the Ministry of Energy and REA requiring that a new lease be granted to UEDCL to operate the assets so that the license could be renewed.

Audit noted that this process had taken long and there was no basis for the Licence fee invoices to UEDCL. I have advised management to follow up the matter with all the stakeholders and have the matter resolved to enable legitimate operations in the sector by the various players.

11.1.3 Lack of land title for ERA Headquarters

ERA Headquarters are located at Plot No. 15 Shimoni Road, Kampala, however, it was noted that its Lease Title expired in 2007 and had not been renewed. In the circumstances, the Authority is exposed to the risk of forfeiture of the land if the City
Authorities chose to reallocate the land to other developers.

Management attributed the delays in the renewal process to the City Authority’s lack of the responsible land board to handle the matter. I have advised management to liaise with relevant stakeholders and have the lease renewed.

11.1.4 Absence of key policies

Contrary to good governance practices, it was noted that ERA did not have risk management and fraud control policies to mitigate challenges that could arise and inhibit the achievement of the organisation’s strategic objectives.

In their response, management explained that the Risk management Manual had been approved at management level awaiting Board’s approval. I await the conclusion of this process.

12.0 AMBER HOUSE LIMITED – YEAR ENDED 31ST DECEMBER, 2012

12.1.1 Non - revaluation of Assets

Under IAS 16 (29) an entity is expected to choose either the cost model or revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. It was noted that even though the company followed the revaluation model, the assets were last revalued more than 6 years ago. No satisfactory explanation was given for failure to carry out subsequent revaluations. These assets may not be fairly stated in the financial statements.

Whereas management explained that they had engaged the services of the Government Valuer to undertake the revaluation, this has not been implemented for the last two years. I have advised management to comply with the requirements of the accounting standard in this regard to ensure fair presentation of the entity’s non-current assets.

12.1.2 Depreciation of Leasehold Land

It was noted that the Company depreciates its leasehold land at 2% per annum and yet the Leasehold Land title was granted a 99 year lease. The depreciation rate does not result in fair allocation of the cost/value of the lease over the lease period which violates the matching concept. The annual depreciation charge of UGX.10,000,000 is overstated by UGX.4,949,495, which potentially understates the annual profits of the company.
Management explained that they were in the process of revising the depreciation Policy in consultation with the Board. I have advised management to undertake prior year adjustments and I await the outcome of their consultations with the Board.

12.1.3 Outstanding Corporation Tax Liability

Section 136 (1) of the Income Tax Act Cap 340 states that a person who fails:

(a) To pay any tax, including provisional tax;

(b) To pay any penal tax; or

(c) To pay to the Commissioner any tax withheld or required to be withheld by the person from a payment to another person, on or before the due date for payment is liable for interest at a rate equal to two per cent per month on the amount unpaid calculated from the date on which the payment was due until the date on which payment is made.

It was noted that for over three years ago the company has accumulated tax arrears of UGX.517,973,200 thereby exposing the company to unnecessary interest and penalties. I have advised management to pay the outstanding taxes.

Management in response explained that they were in negotiations with the Tax Authority. I await for the outcome of these discussions.

12.1.4 Industrial Building Allowance

Section 29(1) & (4) of the Income Tax Act states that where a person has incurred capital expenditure in a year of income on the construction of an industrial building and the building is used by the person during the year of income in the production of income included in the gross income, a person is allowed a deduction for the depreciation of the building for the year of income.

However, I was not provided with details and basis of computation of the Industrial Building Allowance of UGX.575,000,000 that the company claimed during the year highlighted under Note 4 to the Financial statements. In the circumstances, the corporation tax liability could be misrepresented in this regard.

Management explained that, a reconciliation exercise was on-going with URA and once there is an agreed position, adjustments shall be made. I await the outcome of this
engagement.

12.1.5 **Outstanding trade and other receivables**

Included in the Statement of Financial Position is Trade and Other receivables of UGX.11,205,066,413 which had remained outstanding for over four years. This affects the working capital of the company and limits its ability to undertake capital developments.

Management explained that the debts would be dealt with on allocation of the Amber House building to MEMD as advised by the Shareholders during a previous Annual General Meeting. I await the outcome of this undertaking.

12.1.6 **Contravention of good corporate governance practice**

Good Corporate Governance practice requires that a Board exercises oversight functions without getting involved in the day to day operations or management of a company.

It was however noted that, the Chairman of the Board was involved in the day to day operational and administrative duties as a signatory to all company bank accounts. I informed management that this practice gives rise to a conflict of interest.

Management explained that the Company had no General Manager during the period under review and that the chairman would be replaced with the newly recruited General Manager as signatory. I await the outcome of management’s commitment in this regard.

12.1.7 **Going Concern Uncertainty**

During the audit, it came to my notice by way of a letter written by the Permanent Secretary, Ministry of Energy and Mineral Development that as directed by Cabinet, the shareholders in their AGM held on 19th December 2012 resolved to handover Amber House building and the related statutory liabilities arising from outstanding rent to MEMD. This condition indicates existence of a material uncertainty which has cast doubt about the Company’s ability to continue as a going concern.

Management in response confirmed the impending transfer of Amber House building to MEMD and that the company was to effect this together with the related statutory
liabilities arising from outstanding rent to MEMD.

13.0 ATOMIC ENERGY COUNCIL- YEAR ENDED 30TH JUNE, 2013

13.1.1 Absence of Key Policies

Section 15 (2) (b) of The Atomic Energy Act states that the functions of the Secretariat are among others; to recommend to the Council proposals for the formulation of policies of the Council and to implement policies adopted by the Council. I observed that the Secretariat has not proposed the necessary policies to the Council for adoption. Examples of such policies include the following, which are critical in the operations of the Council business:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Corporate/Strategic plan</td>
</tr>
<tr>
<td>02</td>
<td>Asset Management Policy</td>
</tr>
<tr>
<td>03</td>
<td>Risk Management policy</td>
</tr>
<tr>
<td>04</td>
<td>National emergency preparedness and response plan</td>
</tr>
</tbody>
</table>

There is a risk that activities undertaken are not properly guided towards the achievement of the common goals of the Council.

In response management attributed the absence of key policies to inadequate funding and personnel to undertake the formulation of some of these policies.

I have advised management to formulate the necessary policies and present them to Council for approval.

13.1.2 Inadequate Staffing

A review of the Council’s staff establishment revealed that out of 52 staff establishment only 21 (40%) staffs were deployed leaving 31 (60%) positions vacant. Some of the vacant posts were very critical for the achievement of the objectives of the Council, like Chief Radiation Protection Officers, Senior Radiation Protection Officers – Radiological emergency preparedness & response. In the circumstances, management is constrained in achieving its objectives.

In response management stated that, Council has always faced the challenge of
inadequate funding to facilitate recruitment. I have advised management to take up the matter with the Board and have the vacant posts filled.

13.1.3 Signatories to the Bank Accounts

Section 17 of the Atomic Energy Act, requires the Secretary to be the Chief Executive Officer (CEO) who is responsible for the day-to-day operations and administration of the Council. During the financial year, AEC operated two bank accounts in Barclays and Bank of Uganda (BOU) but the Secretary was not a signatory to the latter account.

I explained to management that, this is irregular and there is a risk of mismanagement of the financial affairs of the Council without the knowledge of the CEO.

Management in response acknowledged the anomaly. Accordingly, Council passed a resolution for the Secretary to be a signatory to the BOU account.

I await the outcome of Council resolution in this regard.

13.1.4 Funds not accounted for

Paragraphs 120, 181, and 215 of the Treasury Accounting Instructions, 2003 require that all payment vouchers must be properly supported with appropriate documents before they are passed for payment of any form of expenditure. On the contrary, UGX.2,861,000 spent in respect of various activities during the financial year lacked adequate accountability documents. In the circumstances, I could not ascertain whether the funds were properly spent.

Whereas management in response indicated that the funds had been accounted for, there was no proof to this effect. I have advised management to ensure that all payments are adequately supported before the payment vouchers are passed.

13.1.5 Procurement Anomalies

Section 2(1), (c) of the PPDA Act states that this Act shall apply to all public procurement and disposal activities and in particular shall apply to procurement or disposal of works, services, supplies or any combination however classified by:

(I) Entities of Government within and outside Uganda; and

(II) (ii) Entities, not of Government, but which benefit from any type of specific public
funds specified in paragraph (a) of this sub-section.

A review of the Councils procurement procedures revealed that:

- There was no procurement plan for the financial year audited.
- The Council did not have a list of prequalified suppliers.
- Single sourcing for instance supply of stationery was a common practice.
- Payments lacked copies of PP forms 20 initiating the procurements and Local Purchase Orders (LPOs).

In the absence of the above key requirements, I could not confirm whether the Council obtained value for money in respect of procurements worth UGX.9,877,220.

Management in response acknowledged the anomalies and undertook to comply in future. I have advised management to ensure that all procurements are undertaken in accordance with the procurement laws.

13.1.6 Absence of Radiological Emergency Response Committee

Section 57 (1) of The Atomic Energy Act states that the Minister may, in consultation with the Council, establish an Emergency Radiological Response Committee whose functions are listed in section 58 of the same Act. Contrary to this provision the committee has not been established and this may compromise the mandate of the Council because the functions of this committee appear to be very critical.

In response management stated that, Council requested the various stakeholders to nominate their representatives, and some have done so. Once all nominations are done, a list of the nominees is to be presented to the Minister for appointment by Council. I have advised management to liaise with the Council and ensure that the Committee is established.

14.0 FUEL MARKING AND QUALITY MONITORING PROGRAM (FMQP) FOR THE YEAR ENDED 30TH JUNE 2012

14.1 Procurement of Fuel Marker Chemical

It was noted that a total of UGX.3,386,029,300 was paid to Global Fluids international for supply of fuel marker Chemical during the period under review. However, the supplier did
not acknowledge receipt of the payments. Besides, management did not avail the audit team with the procurement file for audit. It was further noted that withholding tax amounting to UGX.203, 161,758 was not recovered from the payments to the supplier.

I could not ascertain whether the amounts paid for the marker reached the supplier. In addition, there is a risk that the supplier was not competitively sourced and value for money may not have been achieved.

Much as management in their response indicated that acknowledgement receipts/confirmation by M/s Global Fluids International is attached for verification. The accountabilities were still wanting.
I advised management to prove that the funds were received by MIS Global Fluids Ltd.

14.2 Unauthorized revision of budget estimates

A review of the project budget for the period under review revealed that the expenditure and revenue budgets were revised downwards by UGX.265,220,750 and UGX.465,312,750 respectively. However, there was no documentary evidence of proper approval in form of virements.

There is a risk that several planned activities were not undertaken. It is also possible that the budget prepared by the project management was not realistic.

In response management stated that, the revision downwards was deemed necessary following the prevailing economic situation that was caused by financial meltdown which led to the depreciation of the Uganda Shilling versus the Dollar, rising inflation rate. I advised management to provide documentary proof of approval of the revisions.

14.3 Non preparation of joint quarterly work plans

Contrary to section 1 (Areas of Co-operation), sub section 8 of the memorandum of understanding(MOU) which states that the Ministry of Energy and Mineral Development and Uganda National Bureau of Standards shall jointly prepare quarterly work plans for program activities, no such work plans were availed for review.
In the circumstances, there is a risk of lack of coordination in implementing the program activities. In addition, prioritization of program activities is rendered difficult which may in turn lead to unrealistic budgeting.

In response management stated that, it takes note of the provisions in the Memorandum of understanding.
I advised management to adhere to the provisions of the MOU.

14.4 **Inadequate maintenance of the Fixed Assets Register**

Treasury Accounting Instruction (TAI) 400(h) requires that all fixed assets purchased during a financial year should be recorded in the Register of Fixed Assets.
However it was noted that the following assets purchased by the project at a total of UGX 29,595,740 during the period under review were not posted to the fixed asset register.
In the above circumstances, the assets are exposed to a risk of mismanagement and theft.
Management stated the fixed assets register would be updated promptly.
I await evidence of management action.

15.0 **FUEL MARKING AND QUALITY MONITORING PROGRAM (FMQP) FOR THE YEAR ENDED 30TH JUNE 2013**

15.1.1 **Funds not accounted for**

Regulation 120,181 and 215 of the Treasury Accounting Instructions (TAIs), require all payments vouchers to be properly supported with appropriate documents or sub-Vouchers before they are passed for payment.
Contrary to this provision UGX 17,160,846 spent on field allowances and purchase of petroleum sampling bags lacked accountability documents such as activity reports and delivery notes rendering the authenticity of the expenditure doubtful.
I advised management to ensure that the funds are either accounted for or recovered.

15.1.2 **Lack of procurement plan**

Section 58 (a-f) of the PPDA Act 2003 requires that a procuring and disposing entity shall
plan its procurement and disposals in a rational manner. Contrary to this provision, the project management procured goods and services worth UGX. 142,441,492 without a procurement plan. Adhoc procurements may expose the entity to uncompetitive pricing.

In response management stated that, they took note of this observation and will prepare the plan in the subsequent period.

I await management’s action in this regard.

15.1.3 **Staffing Levels**

A review of the organizational structure of the program revealed that the staff establishment provided for 19 positions, but only 14 staffs were deployed resulting into a staffing gap of 5 positions as at 30th June, 2013. Key posts like Field supervisors, field monitoring officers, head of laboratory and lab technicians were still vacant yet they are crucial for the operations of the program. Inadequate staffing hinders implementation of planned activities.

In response management stated that it plans to recruit staff during financial year 2013/14.

I advised management to develop a recruitment plan and liaise with relevant stakeholders to fill the vacant positions.

15.1.4 **National Petroleum Information System (NPIS)**

Section 2.9 of the memorandum of understanding between MEMD and UNBS provides that “MEMD shall be responsible for procuring the necessary technology for marking the fuel”

Whereas the program had budgeted for UGX.30,000,000 for NPIS, the Project Management Committee in its 2nd Meeting dated 8th February, 2013 under minute 4/02/2013 postponed the development of the National Petroleum Information System to next year.

As a result, currently management depends on fuel product import volume remittances and marking by Global Fluids International who are private contractors. Without any
independent reconciliation, the practice exposes the Program to the risk of collecting inaccurate data.

I advised management to develop the NPIS to help in making independent reconciliations of the data provided by the contractor.

HEALTH SECTOR

16.0 UGANDA MEDICAL AND DENTAL PRACTITIONERS COUNCIL- YEAR ENDED 30TH JUNE 2013

16.1.1 Under-utilization of Funds

Out of UGX.909,664,548 received by the Council for implementation of Council activities during the year under review, only UGX.453,525,984 of the revenue was actually utilized, leaving a balance of UGX.441,559,186. As a result planned procurements of items such as the office building, accounting package, computer printers and motor vehicle were not achieved. The accounting officer stated that the procurements would be prioritized in the next financial year.

I advised the Accounting Officer to ensure adequate arrangements are made to carry out procurements as planned.

16.1.2 Un-gazetted names of Medical and Dental Practitioners

Section 19 (2) and (3) of the Medical and Dental Practitioners Act 1996 requires the Council to publish the names and relevant details of the practitioners in the Gazette. A review of Council documents revealed that although the names of registered professionals and Health Units appeared in the newspapers, they were not officially published in the Uganda gazette as required by the law.

Failure to gazette the names of the Practitioners is irregular and may result into legal suits against the Council.

I advised management to adhere to the provisions of the Act and endeavor to publish the names in the Uganda gazette.

17.0 THE NATIONAL DRUG AUTHORITY - YEAR ENDED 30TH JUNE 2012

The audit of National Drug Authority (NDA) had been completed but the financial
statements are still subject to approval by the Board. The following matters were observed during the audit and brought to management’s attention:-

17.1 **Governance**

There were a number of changes in the governance structure including the appointment of a new Board on 18th February 2013 that has however not been sworn in to date. This gap has legal implications and is likely to impact on the operations of the authority. I have advised the management to liaise with the concerned authorities and ensure that the new Board is sworn in to allow for smooth operations at the Authority.

17.1.1 **Contingent Liabilities**

The National Drug Authority is faced with several litigations both civil and criminal that may have a great impact on its activities if lost. These include;

1) Mavid Pharmaceuticals & Suleiman Bukenya Vs. NDA, Royal Group of Pakistan & Abacus Pharma Ltd, Civil Suit No. 383 of 2010.
2) NDA Vs. Samuel Kasozi, Ntale Sharifah & Irene Kalule, High Court Civil Suit No. 148 of 2009.
3) NDA Vs. Dr. Frank Mwesigye Civil Appeal No. 74 of 2012.
4) National Council of Traditional Healers and Herbalists Association (NACOTH) Vs. NDA, the Attorney General & Ms. Florence Nakiwala Kiyingi; Civil Suit No. 392 of 2011.
5) Emmanuel Juma Vs. NDA, H.C.C.S. No. 496 of 2006.
6) George Peter Ngogolo Vs. NDA.
7) Frank Nyakahuma & 18 Others Vs. NDA, High Court Civil Suit No. 352 of 2012.
8) Dr. Livingstone Kityo Semakula & Others Vs. NDA & Jeffrey Kamya Semakula; Civil Suit No. 359 of 2013.

I have advised management to consult with other stakeholders and where possible, ensure that the matters are resolved amicably.

17.2 **Budget Performance**

17.2.1 **Revenue Performance**
Out of the budgeted revenue of UGX.26,647,666,270 only UGX.24,813,680,301 (93%), was realized resulting in a shortfall of UGX.1,833,985,969. This underperformance in revenue collection affects the ability of NDA to implement its approved work plans.

Relatedly, receivables of UGX.6,902,088,235 remained outstanding for 60 days or more without debt recovery procedures being undertaken by management. Also noted were the increase of trade and other receivables, indicating inadequate management of debtors. Failure to promptly collect debts can lead to cash flow challenges and/or loss of funds.

I have advised management to strive and realize the budgeted revenues through enforcement of debt collection procedures in order to be able to implement planned activities.

17.2.2 Expenditure Performance

The Authority budgeted to spend UGX.23,621,194,362 during the year under review, but instead spent UGX.19,370,840,988. Underutilization of funds may imply failure to execute mandatory functions. Management attributed the underperformance to the failure to recruit staff as planned. I urged management to address the causes of underperformance and to always implement planned activities in line with the budget estimates.

17.2.3 Staff Advances

UGX.83,159,964 that was advanced to various officers to undertake official activities remained unaccounted for by the close of the year, contrary to paragraph 215 (a) of Part I of the Treasury Accounting Instructions (TAI), 2003. It was therefore not possible to ascertain whether the funds were used for the intended purposes. I have advised management to ensure that all advances are accounted for in time.

17.3 Land and Buildings

It was noted that NDA signed a memorandum of understanding with Mulago Hospital in August 2010 for the development of the land and premises on Plots 6-10 North Kitante Road but had not secured a formal lease offer or land title. Since NDA operates from this land, its operations may be affected in case of eviction. Management explained that the process of securing a lease had been initiated.

I have advised management to expedite the process of acquisition of the lease to avoid
any future inconveniences.

17.4 **Inadequate Controls over Custody and Maintenance of Assets**

The Authority owns a number of assets including buildings, motor cars, and equipment among others, but there is no specific officer responsible for the safe custody as well as maintenance, disposals and replacements. Also noted was failure by the Accounting Officer to appoint a Board of Survey at year end contrary to the requirements of TAI, 2003. As a result, the assets are exposed to risk of loss or misappropriation and the financial statement balances may be misstated.

I have advised the Accounting Officer to designate an officer to be responsible for the assets of the Authority and to ensure the Board of Survey is conducted annually.

17.5 **Weaknesses in the IT System controls**

The Authority uses IT Systems for its operations, but these lacked essential elements for effective and efficient software applications as indicated below:-

- No continuity and disaster recovery plan in place;
- Information Architecture, Segregation of Duties, and stand by Facilities were missing;
- Information Systems and Network Administration functions were not adequately monitored by management. It was noted that the IT operations were being handled by one person designated by the Head office in an acting capacity implying that there was no segregation of duties in the IT operations;
- Management did not carry out a risk assessment on the IT system and there was no evidence of continuous monitoring of IT resources to ensure efficient performance and utilisation;
- No reports on IT usage had ever been produced and reviewed by management.

These weaknesses expose the IT resources (Information, software and equipment) to high risk of loss. I have advised management designate an officer to handle the department and to strengthen IT controls.

17.6 **Procurement of Vehicles and Motor Cycles**

UGX.1,220,925,235 was spent on procurement of motor cycles and motor vehicles which
were delivered without inspection or verification by the Mechanical Engineer to confirm whether the vehicles and motorcycles conformed to the specifications set at procurement stage. Also noted was that the vehicles were not registered in the names of the Authority. There is a risk that vehicles and motor cycles that did not meet the required specifications could have been procured.

I have advised management to always involve technically competent personnel to witness delivery and inspect vehicles before they are accepted and used.

17.7 **Expired Employment Contracts**

A review of staff personal files revealed that forty four (44) members of staff whose employment contracts had expired were still working without renewal of their employment contracts. This situation arose due to lack of a substantive Board. Without employment contracts, the payment of salaries to these officers is irregular. I have advised management to take up the matter with the relevant authorities so as to expedite the process of having a Board in place that can then regularize staff contracts.

17.8 **Weaknesses in controls at the ports of entry**

It was noted that, the Ports of entry were manned by officers responsible for all processes without segregation of duties implying that there was lack of checks and balances. In some cases, there were inadequate staffing levels and limited supervision from head office. These weaknesses can lead to proliferation of undesirable products into the country.

I have advised management to address the weakness by increasing the level of supervision of the activities at the ports of entry.

17.9 **National Medicines Payment**

UGX.10,720,000 was paid to facilitate the recruitment exercise of the East Africa Community(EAC) National Medicines Registration Officer. Audit could not ascertain the mandate and rationale justifying this expenditure and we were neither availed with the composition of the panellists in the interview panel nor the accountability for the funds. Management explained that EAC was supposed to refund the money and undertook to follow it up. I await the outcome of this undertaking by management.
17.10 **Challenges in the Legal Department**

Audit noted several challenges in the Legal department which affect service delivery. These include;

a. Sentences given by Courts of law are not prohibitive enough to discourage offenders.
b. At times District Assistant Drug Inspectors (DADIs) act without involving the police or Regional Inspectors of Drugs (RIDs) and this affects the integrity/chain of evidence as well as prosecution.
c. At times the office of the DPP is not willing to sanction charges against offenders and this affects enforcement of the law.
d. There is a problem of lack of storage space for exhibits at the police stations and as such, exhibits are usually stored at NDA offices. This is procedurally incorrect and could affect the outcome of prosecution. NDA cannot be the complainant and yet keep custody of exhibits which ultimately form the basis for prosecution.

These challenges could negatively impact on the achievement of the NDA mandate. I have accordingly advised managements to;

- Increase sensitization of DADIs on their role in enforcement and how it should be executed.
- Enhance NDA’s cooperation with other government entities like DPP and Judiciary.
- Always tender to Court any exhibits at the earliest (as soon as the accused persons take plea or as soon as practicable), so that Court advises on how they should be stored.

18.0 **THE NURSES AND MIDWIVES COUNCIL - YEAR ENDED 30TH JUNE, 2013**

18.1.1 **Procurement Irregularities**

During the financial year, the Council procured goods and services worth UGX.58,550,498 using the Direct Method instead of subjecting them to Request for Proposal Method. It was noted that other procurements were split in order to avoid the threshold of UGX.2,000,000 prescribed for micro-procurements specified under Regulation 100 (1) of the PPDA Regulations.

Failure to adhere to the PPDA Regulations affects fair competition and consequently the attainment of value for money during procurement.
Management indicated that procurement of printing services was restricted in order to protect the certificates from duplication. I have advised management to seek waiver from PPDA if there is adequate justification for confidentiality.

### 18.1.2 Staffing Gaps

A review of the NMC staffing position revealed that out of the 33 approved staffing positions, only 19 (58%) had been filled. Audit noted that the vacant positions included the key positions such as Deputy Registrar, Senior Technical Managers, Finance and Administration Manager, Education and Registration Manager and Internal Auditor. Inadequate staffing levels affect service delivery and achievement of the Council’s objectives.

Council management explained that the post of the Deputy Registrar had been advertised and awaited response from the Health Service Commission. In addition, Ministry of Health had been requested to second Technical Managers to the Council and four senior managers were recruited during the financial year.

I have advised the Accounting Officer to liaise with the relevant stake holders and have the vacant positions filled.

### 18.1.3 Lack of Internal Audit Function

It was noted that the Council lacked an internal audit function contrary to Regulations 28 and 29 of Public Finance and Accountability Regulations, 2003. There was also no evidence to show that the Internal Auditors in the Ministry of Health carried out any internal control reviews in the Council during the year. In light of this, management could not be assured of identification of any internal control weaknesses to take corrective actions.

In response, management explained that the Council had resolved to recruit an Internal Auditor in the financial year 2014/2015 financial year. I have advised the Accounting Officer to ensure that the internal audit function is established in the council for proper management of Council resources.

### 19.0 NATIONAL MEDICAL STORES - YEAR ENDED 30TH JUNE, 2013

50
19.1.1 Un-collected Trade Receivables

A balance of UGX.12,397,862,000 was reported as receivables in the financial statements representing an increase of UGX.3,791,560,000 from the previous year. Of the total trade receivables figure, UGX.7,828,101,872 was due from Global Fund alone, as handling fees for Global Fund products. The delays in the collection of funds held by debtors could lead to cash flow problems and ultimately affect the implementation of the planned activities.

The Accounting Officer stated that efforts were being made to recover the funds. I have advised him to put in place a debtor’s policy and ensure that any uncollected debtors are followed up for better liquidity of the entity.

19.1.2 Outstanding Payables

The financial statement show that the trade creditors increased from the previous year’s figure by UGX.10,260,081,000 to UGX.60,244,671,000. The bulk of this amount, UGX.53,923,205,640 was in respect of medical supplies, which exposes the Government to risk of litigations and the associated costs.

The Accounting Officer explained that this was as a result reduction in funding by Government and Center for Disease Control (CDC).

I have advised management to liaise with the Ministry of Finance Planning and Economic Development and to make appropriate budgetary provisions geared towards the settlement of the liabilities and bridging the gap created by CDC reduced funding.

19.1.3 Stocks written off

The value of stocks written off during the year increased by UGX.157,701,000 (46%) from the previous year’s figure of UGX.341,986,000 to UGX.499,687,000. Management attributed the increase in write off to the expiry of the drugs caused by the change in the treatment policy and the non-adherence of the health facilities to their respective procurement plans.

The expiry of drugs impacts on the quantities of drugs held by NMS on behalf of the
health facility which consequently affects service delivery. I have advised management to always liaise and timely communicate with the relevant stakeholders when policy changes take place.

7.9 **Delayed Supply of Goods**

On 16th November 2012, NMS signed a contract with a firm under contract Number NMS/Supls/11-12/02001/61 for supply of laboratory reagents worth USD.990,000. Delivery of the items was to be made within six weeks after contract signing and issue of call of order. However, by the time of audit there was no evidence of delivery of laboratory reagents by the firm.

Management explained that the delayed issuing of call of order and supply was due to lack of funds from CDC which was supposed to fund the procurement. The delayed supply of Laboratory reagents hinders service delivery at the hospitals and health centres.

I have advised management to liaise with the relevant stakeholders to ensure timely release of funds for procurements of essential supplies meant for health facilities.

19.1.4 **Nugatory Expenditure**

It was noted that a sum of UGX.101,914,960 was paid to various companies as demurrage and storage charges of consignments for UNEPI/NMS containers which had delayed to be cleared. Management explained that these were donations and yet National Drugs Authority (NDA) delayed to release the documents pertaining to the consignments.

I have advised the Accounting Officer to closely work with NDA as a Partner Agency so that drug related consignment are given priority and cleared within a short time to avoid related storage costs and effects on the shelf life of the drugs/sundries.

20.0 **CDC - NATIONAL MEDICAL STORES - PERIOD 1ST JULY, 2010 TO 29TH SEPTEMBER, 2011**

20.1 **PURCHASE, DISTRIBUTION AND TRACKING OF COTRIMOXAZOLE, HIV/AIDS RELATED LABORATORY SUPPLIES – (GRANT AWARD NUMBER 1U2GPS002799-01)**
20.1.1 Late submission of quarterly reports

It was noted that NMS was not able to meet the agreed deadlines for quarterly reporting to CDC Atlanta while JMS did not meet the required reporting deadlines to NMS contrary to the requirements of the Cooperative agreement and the sub grantee agreement. Noncompliance with the requirements may impact negatively on the project implementation.

Management promised to review the reporting timelines with CDC country office so as to align and meet the reporting timelines of CDC Atlanta. I have advised management to expedite the review process.

20.1.2 Noncompliance with CDC guidelines

HHS grant policy statement section 1-13 requires management to check eligibility of suppliers on the Excluded Parties List System. Further, 45 CFR PART 74.22 require that CDC advances must be deposited and maintained on an interest bearing account unless certain conditions are satisfied. It further, states that the interest earned on this account if exceeding US $ 250 must be returned to the Federal agency at end of the period. However, it was noted that NMS did not use the Excluded Parties List System for checking eligibility of suppliers before they were approved but instead NMS suppliers were sourced using PPDA regulations. It was also noted that CDC funds were always received on the NMS bank account which was a non interest bearing account leading to a loss of interest on these CDC disbursements.

20.1.3 Commingling of CDC funds by JMS

It was noted that funds received by JMS for the CDC funded activities are banked onto the general JMS account and spent on various activities implemented by the entity. As a result, advances to JMS amounting to US$ 322,659 reflected in the project Fund balance could not be verified as the JMS General account at year end (September 29,2011) had a balance of only $ 177,984. Besides, reconciliation of CDC balance of US$ 322,659 was not provided to confirm its composition in form of cash and / or stock at hand if any. Failure to account for unutilized advance was attributed to JMS running a number of donor projects without maintaining separate bank accounts for each project.
Management explained that CDC funds are recognized as a liability in their books which liability is gradually reduced with the cost of items supplied to the beneficiaries. I advised management that JMS to consider operating a separate bank account for CDC funds or else develop a system that could automatically recognize and reconcile CDC related transactions and generate reports accordingly.

20.1.4 **Failure to reconcile Financial records on a timely manner.**

It was noted that financial records were not reconciled in a timely manner to enable preparation of the final reports. For instance, it was not possible to obtain a Trial balance from the system. The Trial balance was instead derived manually during the time of the audit. In addition, there was a suspense account with a balance of USD 1,155 which could not be explained satisfactorily by project management.

Irregular preparation of reconciliations increases the risks of error and commissions or omissions going undetected leading to misstatements of financial statements. Management explained that the suspense account arose from commingling of projects’ funds with entity funds at the start of the projects but reconciliations of the financial records were to continue until the suspense account balance is resolved. I have advised management to ensure that a proper accounting system is put in place to enable timely production of financial reports.

20.1.5 **Irregular bank reconciliation statement reviews:**

Best practices require bank reconciliations to be prepared regularly (monthly) and be reviewed timely by a responsible supervisor. However, it was noted that bank reconciliation statements for the months of October 2010, November 2010 and December 2010 were reviewed by the supervisor in the month of February 2011.

It was explained that this was a period of transition where the entity was changing from the Management Information System Navision 2007 to an interfaced MACS/SAGE line 500 and stated that during this transition period the two systems were running in parallel. I have advised management to ensure regular preparation of bank reconciliation statements and have them reviewed by an independent supervisor.

20.1.6 **Lack of Internal audit function:**
The internal audit function is a major internal control management tool in financial management. However, it was noted that although NMS had a fully-fledged internal audit department, no specific internal audit was carried out to ensure compliance with project implementation requirements. Absence of internal audit function for regular checks, reviews and project implementation monitoring by an independent structure could have led to material errors going undetected.

Management stated that specific internal audits for the project were to be undertaken in the subsequent periods. I advised management to ensure that internal audit undertakes reviews and report accordingly.

**20.1.7 Un approved expenditure.**

Project recipients are required to report deviations from budgets and program plans; and submit requests for prior approvals of budgets and program plans revisions in accordance with 45 CFR part 74. It was however, noted that JMS a sub grantee, incurred US$ 4,017 on handling charges which was not budgeted for and did not obtain prior approval from CDC. As a result, the expenditure’s eligibility was rendered questionable.

I have advised management to regularize this expenditure in consultation with the project financiers.

**21.0 CDC - NATIONAL MEDICAL STORES - PERIOD 30TH SEPTEMBER, 2011 TO 29TH SEPTEMBER, 2012**

**21.1 PURCHASE, DISTRIBUTION AND TRACKING OF Cotrimoxazole, HIV/AIDS RELATED LABORATORY SUPPLIES – (GRANT AWARD NUMBER 1U2GPS002799-01 )**

**21.1.1 Compliance with Financing Agreement and Government of Uganda Financial Regulations**

i. **Late submission of quarterly reports**

It was noted that NMS was not able to meet the agreed deadlines for quarterly reporting to CDC Atlanta while JMS did not meet the required reporting deadlines to NMS contrary to the requirements of the Cooperative agreement and the sub grantee agreement. Noncompliance with the requirements may impact negatively on the project implementation.
Management promised to review the reporting timelines with CDC country office so as to align and meet the reporting timelines of CDC Atlanta. I await the outcome of this review process.

ii. **Noncompliance with CDC guidelines**

HHS grant policy statement section 1-13 requires management to check eligibility of suppliers on the Excluded Parties List System. Further, 45 CFR PART 74.22 requires that CDC advances must be deposited and maintained on an interest bearing account unless certain conditions are satisfied. It further, states that the interest earned on this account if exceeding US $ 250 must be returned to the Federal agency at end of the period. However, it was noted that NMS did not use the Excluded Parties List System for checking eligibility of suppliers before they were approved but instead NMS suppliers were sourced using PPDA regulations. It was also noted that CDC funds were always received on the NMS bank account which was a non-interest bearing account leading to a loss of US$ 11,901 interest on CDC disbursements.

21.1.2 **General Standard of Accounting and Internal Control**

It was noted that management had in all material respects, put in place a satisfactory internal control system and measures to ensure proper accountability for all project funds, except for the following matters:-

i. **Un approved expenditure**

Project recipients are required to report deviations from budgets and program plans; and submit requests for prior approvals of budgets and program plans revisions in accordance with 45 CFR part 74. It was however, noted that JMS a sub grantees, incurred US$ 20,061 on handling charges which was not budgeted for and did not obtain prior approval from CDC. As a result, the expenditure’s eligibility was rendered questionable.

ii. **Commingling of CDC funds by JMS**

It was noted that funds received by JMS for the CDC funded activities are banked onto the general JMS account and spent on various activities implemented by the entity. As a result, I was unable to verify the unutilized project funds with JMS amounting to US$ 1,235,563 as the balance on the JMS General bank account at period end (September
29, 2012) was only US $ 986,371. Failure to account for unutilized funds was attributed to JMS running a number of donor projects without maintaining separate bank accounts for each project.

JMS management explained that CDC funds are recognized as a liability in their books which liability is gradually reduced with the cost of items supplied to the beneficiaries. I have advised management that JMS should consider operating a separate bank account for CDC funds or else develop a system that could automatically recognize and reconcile CDC related transactions and generate reports accordingly.

iii. Failure to reconcile Financial records on a timely manner

It was noted that financial records were not reconciled in a timely manner to enable preparation of the final reports. For instance, it was not possible to obtain a Trial balance from the system. The Trial balance was instead derived manually during the time of the audit. In addition, there was a suspense account with a balance of USD 1,155 which could not be explained satisfactorily by project management.

Irregular preparation of reconciliations increases the risks of error and commissions going undetected leading to misstatements of financial statements. It was explained that the suspense account arose from commingling of projects’ funds with entity funds at the start of the projects but reconciliations of the financial records were to continue until the suspense account balance is resolved. I have advised management to ensure that a proper accounting system is put in place to enable timely production of financial reports.

iv. Lack of Internal audit reviews:

The internal audit function is a major internal control management tool in financial management. However, it was noted that although NMS had a fully-fledged internal audit department, no specific internal audit review was carried out to ensure compliance with project implementation requirements. Absence of regular checks, reviews and project implementation monitoring by an independent structure could have led to material errors going undetected.

Management explained that specific internal audits for the project were to be undertaken in the subsequent periods. I have advised management to ensure that internal audit undertakes reviews and report accordingly.
21.1.3 Exceeding Budget lines

The cooperative agreement requires the project management to implement activities within the budget lines that have been provided and approved. Audit however noted a number of expenditure budget lines that had been exceeded. This was as a result of inadequate reviews and monitoring of the actual expenditure against the budget which could lead to some activities not being implemented as planned. **Table below refers.**

<table>
<thead>
<tr>
<th>Expenditure Item</th>
<th>Actual Expenditure USD</th>
<th>Budget USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBTS Salaries and wages</td>
<td>982,314.92</td>
<td>934,064</td>
<td>48,250.92</td>
</tr>
<tr>
<td>UBTS Supplies</td>
<td>429,599.36</td>
<td>377,387</td>
<td>52,212.36</td>
</tr>
<tr>
<td>UBTS Others</td>
<td>410,137.92</td>
<td>380,713</td>
<td>29,424.92</td>
</tr>
<tr>
<td>URCS Salaries and wages</td>
<td>226,456.92</td>
<td>179,694</td>
<td>46,762.92</td>
</tr>
<tr>
<td>URCS Fringe Benefits</td>
<td>99,410.11</td>
<td>59,298</td>
<td>40,112.11</td>
</tr>
<tr>
<td>URCS Travel</td>
<td>152,527.78</td>
<td>136,408</td>
<td>16,119.78</td>
</tr>
<tr>
<td>URCS Others</td>
<td>40,271.38</td>
<td>20,485</td>
<td>19,786.38</td>
</tr>
</tbody>
</table>

In their response, management explained that they had made a submission for carryover of US$ 156,091.57 and followed up with correspondences between December 2011 and June 2012 but clearance was not received. These being core activities, management decided to incur the amount under the respective expenditure categories. I have advised management to adhere to the approved budget lines during implementation of project activities.

21.1.4 Inadequate cash counts

It is good accounting practice to perform regular cash counts that are witnessed by personnel independent of the cashier. Audit observed that there was no evidence of periodic and year-end cash counts except for one performed by Gulu Regional Blood Bank at the year-end. The failure to conduct regular and properly documented cash counts may lead to failure to detect and control misuse of cash during the budget period.

In their response, management admitted that the cash counts were not done regularly for all their units but pledged to improve in line with this observation. I advised UBTS to perform periodic cash counts and properly document results thereof on a cash count.
certificate.

21.1.5 Late Income Tax (PAYE) remittance

The Income tax Act CAP.340, requires employers to remit income tax charged on employees by the 15th day of the following calendar month to which it relates. Audit however noted that UBTS made late remittances of the Income Tax (PAYE) returns for the months below:

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount (USD)</th>
<th>Deadline Date</th>
<th>Date Remitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2012</td>
<td>13,721.66</td>
<td>15 Feb 2012</td>
<td>22nd June 2012</td>
</tr>
</tbody>
</table>

Delays in remittances of the statutory obligations could result in fines and penalties being imposed by the tax Authority. Management has been advised to adhere to the stipulated deadlines for statutory obligations and remittances.

21.1.6 Inadequate evidence of Income Tax (PAYE) Remittances

Audit observed that UBTS made income tax (PAYE) deductions from the employees of the project but, there was no evidence of remittance to Uganda Revenue Authority for the months of October 2011, November 2011, December 2011, February 2012, March 2012, April 2012, July 2012, August 2012 and September 2012. In absence of acknowledgement receipts as appropriate evidence of all income tax (PAYE) remittances, it was not possible to confirm that the tax remitted was all received by Uganda Revenue Authority.

Management in their response stated that the payments and returns for the remittances were effected to URA as required by law. During the period under review, however, UBTS transited to the e-tax payment system which could not print receipts as expected. Efforts were made by UBTS to contact URA so as to have the anomaly corrected, but by the end of the reporting period, it had not been resolved.

I have advised management to follow up the matter with URA so that appropriate evidence in form of acknowledgement receipts is availed for confirmation of the purported remittance.

21.1.7 Inadequately Supported Expenditure

Audit identified expenditures that were posted to the ledger accounts and Fund Accountability Statement but lacked essential supporting accountability documents.
contrary to the cooperative agreement requiring all expenditure incurred to be supported with appropriate accountability documents. In view of this, audit could not ascertain that the transactions actually occurred and the expenditures were legitimate. **Table below refers.**

<table>
<thead>
<tr>
<th>Date</th>
<th>Voucher No.</th>
<th>Payee</th>
<th>Details</th>
<th>Amount (USD)</th>
<th>Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>19/10/2011</td>
<td>PV 35</td>
<td>MOIL (U) Ltd</td>
<td>Being payment of fuel, oils and lubricants for the month of September 2011</td>
<td>10,707.53</td>
<td>No receipt attached</td>
</tr>
<tr>
<td>18/01/2012</td>
<td>PV 140</td>
<td>MOIL (U) Ltd</td>
<td>Being payment of fuel, oils and lubricants for the month of December 2011</td>
<td>10,185.81</td>
<td>No receipt attached</td>
</tr>
<tr>
<td>28/02/2012</td>
<td>PV 174</td>
<td>NBS Kodheyo 89 FM &amp; Maranatha 104.7 FM</td>
<td>Being payment in respect of talk shows and radio announcements.</td>
<td>694.79</td>
<td>No receipt attached</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>21,588.13</strong></td>
<td></td>
</tr>
</tbody>
</table>

Management explained that at the time of the audit, the receipts for payment vouchers 35, 140 and 174 had not been retrieved from the payees. I have advised management to ensure that the expenditure incurred and posted to the ledgers and fund accountability statement is appropriately and adequately supported.

**22.0 ALLIED HEALTH PROFESSIONALS COUNCIL - YEAR ENDED 30TH JUNE 2013**

**22.1.1 Inappropriate depreciation rate for Assets**

International Public Sector Accounting Standards require management to make appropriate and reliable judgments, estimates and assumptions that affect the application of policies and the reported amount of assets and liabilities at the date of financial statements. The Council depreciated its assets including computers, office equipment, furniture & fittings and motor vehicles/cycles using a single rate of 12.5% per annum on a reducing balance method.

The basis of selecting a single accounting estimate across all classes of fixed assets was not explained. The value of the Property, Plant and Equipment reflected in the financial statements does not reflect the true value of the assets of the Council and therefore the
financial statements are misrepresented.

The Accounting Officer explained that a decision would be made on the appropriate depreciation rates and forwarded to Council for approval. I await the outcome of management action on the matter.

22.1.2 Un-Collected Trade Receivables

The statement of financial position indicated trade receivables of UGX.345,825,000 of which UGX.270,825,000 was due from the Allied Health Professionals while UGX.75,000,000 was owed by Clinics in form of license fees. The delays in the collection of debts lead to cash flow challenges and ultimately affect the implementation of the planned activities.

The Accounting Officer explained that efforts were being made to recover the amounts in question. I have advised him to put in place a debt collection policy and ensure that any outstanding debtors are followed up.

22.1.3 Failure to Gazette the Allied Health Professionals

Section 24 (2) of the Allied Health Professionals Act, Cap 268 requires the Registrar to publish in the gazette the names of persons registered or struck off the register as soon as is practicable and have an up-to-date register of professionals by the 31st day of March in each year.

However, it was noted that the Council did not gazette the names of the professionals contrary to the provisions of the Act. Failure to gazette the professionals could lead to non-professionals operating in the market without being detected.

The Accounting Officer explained that Council had completed the verification exercise and the gazetting would be done by 31st March 2014. I have advised management to expedite the process of verification and have the names gazetted as required by the law.

22.1.4 Lack of Internal Audit Function

Section 8.1 of the Allied Professional Council financial manual, 2011 stipulates that the AHPC shall have an Internal Audit department which shall be an independent department answerable to the Finance and Accounts Committee of the board. Contrary to the provisions of the financial manual, the Council did not have an Internal Audit department and there was no evidence that the functions were performed by Internal Audit of the
responsible Ministry of Health.

The absence of the internal audit function implies that the Finance and Accounts Committee of the board is not able to perform its role while internal control weaknesses could be existing within the system but never be detected. I have advised management to liaise with the Board and ensure that internal audit functions are performed in the Council either by recruiting their own auditors or using the MoH audit unit.

23.0 JOINT CLINICAL RESEARCH CENTRE – 30TH JUNE, 2012

23.1.1 Budget Performance

During the year under review, it was noted that JCRC improved its financial performance with a surplus of UGX 504 million compared to a deficit of UGX 2.5 billion realized during the previous year. However, the Research Center did not have an approved budget and an Annual Work Plan for the year under review. In the absence of an approved budget and approved annual work plan, the expenditure incurred during the year under review remained unauthorized. As a result, it was not possible to undertake a detailed analytical procedures on the financial statements and evaluation of the centre’s performance.

Management explained that a consolidated budget for the organization was not presented to the Board of Trustees in time for the financial year in question, because of a loss of senior staff leading up to the final accounts preparation which seriously affected the Centre's ability to produce an accurate consolidated budget on time. They further explained that this problem had been addressed and budgets were prepared for the subsequent years.

23.1.2 Outstanding Commitments

A review of the financial statements revealed that JCRC accumulated outstanding commitments amounting to UGX 7,988,597,000 during the year under review as detailed below:

<table>
<thead>
<tr>
<th>Account Balance</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payable</td>
<td>4,752,904,000</td>
</tr>
<tr>
<td>Statutory payables</td>
<td>3,141,601,000</td>
</tr>
<tr>
<td>Other Payables</td>
<td>94,092,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,988,597,000</strong></td>
</tr>
</tbody>
</table>

Accumulation of payables to a tune of over UGX 7 billions in one financial year could be
an indication of poor budgetary controls. Since the centre relies heavily on donor funding which may not be sustainable in the long run, the continuity of its operations in the long run is doubtful.

The Accounting Officer explained that more than 50% of these commitments were long term and not short term creditors and were specifically advised to present them as short term which exaggerates the true extent of their current liabilities. The big portion of this amount (i.e. 4bn) is owed by the Ministry of Health, which had agreed to take on the statutory debt with URA as part of their liability with JCRC.

I have advised management to ensure that these debts are settled to avoid penalties and fines through possible litigations.

23.1.3 Lack Of A Comprehensive Risk Management System

Good corporate practice requires organisations to have a comprehensive risk management system to ensure proper management practices amidst risks and uncertainties. It was however noted that JCRC did not have a comprehensive risk management system/framework that could help the centre identify risks, and devise means of mitigating them.

Management explained that they had been promised funding from USAID to develop a system with technical assistance provided by Management Sciences for Health beginning April 2013. This system will assist the Audit Department and Audit Committee with a comprehensive system that will manage risks for JCRC efficiently and effectively.

I have advised management to formulate a framework that will guide the identification of risks across the organization and also provide direction on the possible courses of action once the risks occurred.

23.1.4 Lack of a Resource Center

JCRC has served Uganda in the field of medical care (HIV/AIDS) for several years and it is driven by research, clinical services, laboratory services and training. However, it was noted that the centre does not have an adequate research center to serve as a comprehensive source of reference for research and training which form a core of the centre’s business. Lack of a resource centre could hinder the organization from the achievement of its strategic objectives.

Management explained two training centres in Lubowa and Mbale had been planned and incorporated into the business plan awaiting approval. However, the creation of these
centres had been delayed due to funding constraints.

I have advised management to ensure that a well stocked resource centre is established to aid research and training activities.

### 23.1.5 Record Keeping in the Stores

It was observed that the stores cards were not being updated with the movement of goods received and issued from the stores. Accordingly, audit noted variations between the stock card balances and the physical stock available as shown in the table below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Units</th>
<th>Number</th>
<th>REF</th>
<th>Balance as per stock card</th>
<th>Available balance</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dettol soap</td>
<td></td>
<td>CLGDT0001/C LG1001</td>
<td>21/6/12/3375</td>
<td>687</td>
<td>600</td>
<td>87</td>
</tr>
<tr>
<td>Abacavir /Lamivudine</td>
<td>60mg/30mg Mfg09/2011/-08/2013</td>
<td>13/3/12 5134 NMS 963</td>
<td>1166</td>
<td>897</td>
<td>269</td>
<td></td>
</tr>
<tr>
<td>Surgical gloves</td>
<td>50 prs /100 Bin card CLIO87</td>
<td>77440</td>
<td>41</td>
<td>18</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Tenofovir Disoproxifumarate /Efavirenz</td>
<td>300mg/600mg/200mg</td>
<td>9990</td>
<td>8640</td>
<td>1350</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DF/EFV/EM TIRI</td>
<td>BIN no M0562</td>
<td>5142</td>
<td></td>
<td></td>
<td>1148</td>
<td></td>
</tr>
</tbody>
</table>

In the circumstance, reconciliation of these balances could not be possible.

Management noted the problem and explained that with improved stores management in place at Lubowa and additional resources allocated to stores and regular training for staff had led to improved stock recording. Further and regular monitoring of stock controls and record keeping would continue to ensure effective stock management.

I have advised management to ensure that the stores records are always updated as and when there are stock movements in the stores.

### 23.1.6 Un-Vouched Expenditure

According to regulation 60 of the PFAR, 2003, all disbursements of public moneys should be properly vouched on payment vouchers prescribed by the Accountant General. It was however noted that UGX.407,392,154 from two bank accounts, JCRC SCIPA and COHRE;
that was incurred for different activities lacked payment vouchers.

Accordingly, I was not able to confirm whether the sum of UGX.407,392,154 was properly spent with probity and propriety.

23.1.7 Duplication Of Payment Voucher Numbers

Review of the various JCRC project cash books revealed that payment voucher numbers totaling to UGX.461,149,620.5 and US$393,165 were duplicated. Management attributed the duplicate voucher numbers to system errors in the Navision Accounting package.

Duplication of voucher numbers could lead to loss of funds through duplicate payments.

<table>
<thead>
<tr>
<th>Project/Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>JCRC SCIPHA (UGX)</td>
<td>434,525,416</td>
</tr>
<tr>
<td>STUDY PROJECTS (UGX)</td>
<td>26,624,204.5</td>
</tr>
<tr>
<td>Total (UGX)</td>
<td>461,149,620.5</td>
</tr>
<tr>
<td>ARROW PROJECT (USD)</td>
<td>393,165</td>
</tr>
</tbody>
</table>

Although the Accounting officer explained that Navision did on some occasions generate the same payment voucher numbers and this anomaly was reported to the Navision suppliers for urgent correction as part of the TOR for rectification of the Navision accounting system and this was one of the many reasons cited for its replacement.

I have advised Management to review the functionality of the accounting package to eliminate the weakness of duplicating document numbers.

23.1.8 Inadequate Procurement Manual

JCRC developed a Procurement Guidelines Manual in 2007 which was approved by the JCRC board of trustees to guide the procurement processes. However, a review of the manual in relation to the best practices and the PPDA Act, revealed the following weaknesses in the manual;

Management has promised to expedite the process of realigning procurement guidelines.
manual with the principles of the procurement laws.

- The methods of procurement in the manual do not state the thresholds to use when selecting procurement methods to be used for specific procurements.

- The manual does not state the bidding periods for each procurement method, advertising periods and the bidding procedures such as issue, receipt and bid opening.

- The Contracts Committee (CC) reports to the board committee of finance and procurement and yet some members of the CC are also members of the board committee of finance and procurement. This compromises on checks and balances.

- The manual does not provide for an evaluation committee or evaluation methods to be followed but gives the Head of Procurement all the powers to do the evaluations which may hinder fairness, transparency and value for money.

- The manual gives overall responsibilities to the Accounting Officer, under section 2.3 and yet under section 2.4, approval powers are also given to the Contracts Committee and Board Committee of Finance and Procurement, for example approval of procurement thresholds and commitment of funds. This may lead to conflicting roles and responsibilities.

The inadequacies noted in the procurement guidelines manual may compromise the principles of transparency, fairness, accountability and value for money enshrined in the procurement laws.

Management explained that its procurement manual was outdated and that it was to be updated with funding from Management Sciences for Health LMG project during the quarter 2 of 2013/2014.

I have advised management to expedite the process of updating the guidelines manual and address the weaknesses identified.
24.0 **JOINT CLINICAL RESEARCH CENTRE – 30TH JUNE, 2013**

24.1.1 **Funds not accounted for**

Chapter 14.0 section 14.1 of the JCRC Financial & Accounting Policies and Procedures Manual requires advances to be accounted for within 7 days and in any case not later than 30 days.

It was however noted that UGX. 412,456,382 advanced to various JCRC staff and Institutions to carry out official activities remained outstanding beyond the prescribed period as indicated in the table below:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Account area</th>
<th>Amount (UGX.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JCRC - SCIPHA Project (UGX) account</td>
<td>363,277,757</td>
</tr>
<tr>
<td>2</td>
<td>JCRC – COHRE Project (UGX) account</td>
<td>49,178,625</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>412,456,382</strong></td>
</tr>
</tbody>
</table>

Delayed accountability may result into falsification of documents.

I advised management to obtain and avail relevant supporting documents for audit verification. In the alternative the funds are recoverable.

24.1.2 **Absence of Expenditure Records**

Paragraph 122 of the TAI 2003, provides that all payment vouchers must be properly supported with appropriate documents or sub vouchers before they are passed for payment. However, it was noted that expenditure amounting to UGX.161,636,557 was incurred without payment vouchers and relevant supporting documents. The schedule below refers:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Account</th>
<th>Amount (UGX.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>JCRC - SCIPHA Project (UGX) account</td>
<td>156,036,557</td>
</tr>
<tr>
<td>3</td>
<td>JCRC - Star Project (UGX) account</td>
<td>5,600,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>161,636,557</strong></td>
</tr>
</tbody>
</table>

Although management stated that the supporting documents were available, they were not submitted for verification.

I advised management to provide the relevant documents for audit verification or recover the funds.
24.1.3 **Long term Debtors:**

The accounts of the Centre reflected debtors totalling UGX. 2,684,620,000 which have been outstanding since the previous year. The debtors comprise MOH (UGX. 2,351,120,000), MOD (UGX. 325,760,000) and MOFPED (UGX. 5,450,000). Delayed settlement of the debts renders implementation of planned activities difficult. The accounting officer explained that JCRC engaged the ministries and received some partial payments. The ministries had also promised to settle the outstanding amount. I have advised Management to continue following up the matter with the respective Accounting officers to settle the debts.

24.1.4 **Current Liabilities**

A review of Note 20 of the financial statements revealed that JCRC accumulated outstanding commitments amounting to UGX. 2,317,020,000 during the year under review as detailed below:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Account area</th>
<th>Amount (UGX.)- 2013</th>
<th>Amount (UGX.)- 2012</th>
<th>Amount paid during f/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trade payables</td>
<td>2,162,370,000</td>
<td>4,752,900,000</td>
<td>2,590,530,000</td>
</tr>
<tr>
<td>2</td>
<td>Statutory Payables</td>
<td>154,550,000</td>
<td>3,141,600,000</td>
<td>2,987,050,000</td>
</tr>
<tr>
<td>3</td>
<td>Other Payables</td>
<td>100,000</td>
<td>94,090,000</td>
<td>93,990,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>2,317,020,000</strong></td>
<td><strong>7,988,590,000</strong></td>
<td><strong>5,671,570,000</strong></td>
</tr>
</tbody>
</table>

Although management is commended for reducing the outstanding commitments from UGX. 7.988 Billion to UGX 2.317.02 Billion, a lot more effort is required to clear the outstanding debts. I explained to the accounting officer that accumulation of payables could be an indication of poor budgetary controls. Management was advised to ensure that these debts are settled to avoid penalties, fines and any possible litigation.

24.1.5 **Foreign Exchange Losses**

JCRC operates different accounts in various currency denominations (Local and foreign)
thereby causing it to have a large foreign exchange exposure. A review of the accounting records revealed that the council made foreign exchange losses during the year under review amounting to UGX. 145,270,000 as per the Statement of Financial Activities for the year ended 30\textsuperscript{th} June 2013, which greatly impacted on the financial performance of the council. The accounting officer explained that under some grantee arrangements with USAID, funds are received in Ugandan Shillings and yet most of the equipment is purchased using US Dollars/Euros/UK pounds. The funding partner sets a fixed rate per month and when actual bank rates are used for buying supplies, the buying rate is usually higher than the exchange rate, resulting into foreign exchange losses. I have advised the accounting officer to engage the funders and devise means of avoiding or reducing such foreign exchange losses.

24.1.6 Long Term Liabilities

A review of the financial statements revealed that JCRC had long term liabilities in form of trade creditors amounting to UGX. 1,399,490,000. Accumulation of payables exposes the entity to fines and litigation.

The Accounting officer explained that the costs relate to drug supplies under a project that expired before settlement of the debt.

I have advised the Accounting Officer to liaise with the relevant stakeholders to have the long outstanding obligations settled.

24.1.7 Doubtful Purchase of Drugs

A review of accounting records under JCRC Study Project (UGX) account revealed that M/s Pharmacy Choice was paid UGX. 1,350,000 vide expenditure voucher number STD000679 for allegedly supplying 9 vials of meronem IG, while M/s Laborex was paid UGX.5,540,640 vide expenditure voucher number STD000678 for supplying urgent drugs for patients. However in both cases no delivery notes or goods received notes were presented. A further scrutiny of the documents revealed that these purchases were not reflected in the stores records.

The accounting officer explained that these were drugs procured from nearby pharmacies in emergency cases for specific study patients in critical conditions.

I have advised Management to develop a prequalified list of service providers and formulate framework contracts in case of emergency procurements.
7.10 **HRM Issues**

7.10.1 **Lack of Salary Grades**

Although best practice would dictate that staff employed should be recruited based on their qualifications and experience among other requirements and subsequently these would determine the salary grades and scales, this was not the case with JCRC. On reviewing the Human Resource Manual it was observed that the entity does not have set standards of salary grades regarding the various posts established in the Research center. As a result the wage bill cannot be easily ascertained with accuracy. The accounting officer explained that the Human Resource manual is under revision to address issues of salary grades and the basis for salary increments. A revised salary structure with incremental steps shall be presented to the Board of Trustees towards the end of March 2014 to address this outstanding issue.

I have advised the Accounting Officer to ensure that the Human Resource manual is revised to include salary grades and salary increment ladders as a way of establishing a well defined salary structure.

7.10.2 **Lack of Standardized letter of Appointment**

Best practice would dictate standardization of documents used by an entity. On reviewing the Human Resource Manual it was noted that JCRC does not have a standard format of letter of appointment which makes it difficult to ascertain whether the terms and conditions of service of staff consistent. I have explained to the Accounting officer that in the absence of a standardization of the appointment letter and other similar documents, some employees are likely to have variation in terms of conditions of service leading to unfair treatment of staff which would affect service delivery.

The accounting officer explained that the HR Manual is currently being revised and to take care of the above concern.

I have advised the Accounting Officer to expedite the process of revising the HR manual.

7.11 **Expired Term of board of Trustees**

Clause 2 of the JCRC Articles of Association stipulates that the members on the board of trustee should serve two years in the 1\textsuperscript{st} term and subject to renewal. However, it was noted that the current Board of Trustees of JCRC was instituted in 1998 and to date they
still hold their positions on the board without regularizing their extension to remain on the board. I have explained to the Accounting Officer that their continued serving on the Board without renewal contravenes the Articles of Association.

I have advised the Accounting Officer to ensure that a new board is instituted promptly in accordance with the Articles of Association.


25.1 Findings on Internal Control Structure

25.1.1 Incomplete Personnel Files

The Human Resource Manual (Sec 15.1) of JCRC states that the personal file of an employee shall have the following contents - employment application, Curriculum Vitae, full name and home address, letter of appointment, disciplinary letters, emergency contracts, next of kin details, family details, probationary status record, completed training certification and items that require an employee’s signature such as induction Plan, Job descriptions, completed Performance Appraisal Forms.

It was noted that out of the twenty three Personnel files that were sampled, 17% of them lacked Contracts of employment; 17% lacked letters of application; 9% lacked academic certificates; 30% lacked current year’s appraisal forms, and 100% lacked medical examination tests. Some employees’ salaries were increased but there were no records (such as promotion letters) on the respective files to support the increment. These constituted 26%.

There was Laxity towards adherence to JCRC’s Human Resource Policies and/or delay to update policies and procedures to match with current practice. As a result, staff may sue the company for non-compliance with Human Resource Policies.

Management explained that while all driving permits were available, it acknowledged that some few copies of driving licenses were located only in the central files rather than on individual personal files. This was to be corrected immediately, and the gaps in internal processes would be strengthened to prevent any future occurrence. They further stated that while exit interviews had a separate file for purposes of analysis, medical tests had not been a practice.
I have advised Management to update personnel files by filing personnel information and adhere to Human Resource Policies and Procedures. Human Resource policies and procedures should be updated to match with recent changes in HR Practices.

25.1.2 Delays to recover housing advance from staff

Sec 13 of the Human Resource Manual outlines the loan policy in place. According to Sec. 13(2) of the manual, a compassionate loan is given in form of housing advance and recovered within a period of three months. All housing advances are approved by the Executive Director.

It was noted that one employee received an advance in October 2011 but salary deductions were not effected until April 2012 while in another case, another employee receive done who was given advance in July 2011, but by December 2012, no deductions had been made. This showed non-compliance with the Human Resource Manual.

There is a risk that;

- If not well tracked, some advances might not be recovered leading to loss of program funds.
- There is disparity in recovery periods where some employees access project funds (advances) for longer periods than others.

Management explained that the delays that occur in housing advance, was because of compassionate considerations for a few staff who had genuine emergency needs. In the two instances cited, the following details emerged. A daughter to one of the staff was seriously burnt in a fire and had specifically requested (on compassionate grounds) to delay deductions as a result of extended medical bills and treatment. The second case was that of a doctor who was leaving the organization and the advance was fully deducted from his terminal benefits as per standard payroll practice. Management further recognised that request for delayed deductions needed to be formalised and submitted to the Human Resources Manager for approval for a specified period which would be incorporated into the revised HR manual.

I advised Management to effectively monitor advances to ensure that deductions commence in accordance with provisions of the HR manual.

25.1.3 Payment of overtime beyond the recommended hours in Human Resource Manual
Section 3.1.3 of the JCRC Human Resource Manual provides for both special and ordinary overtime. The manual further states that no employee shall be authorized to work more than 20 hours of overtime in a given month. However, it was noted that overtime was paid for durations beyond the recommended 20 hours, contrary to the HR manual. This is an indication of failure to adhere to the HR policies and the procedures manual. This could result in health complications for affected staff arising from overworking.

Management explained that the HR manual was being updated and would result in change in the recommended number of hours allowed in a month and will be consistent with the Employment Act. I have advised management to adhere to the HR policies and procedures.

25.1.4 Failure to effect transfer of motor vehicle ownership from USAID to JCRC

On September 30, 2011, USAID allowed JCRC to transfer ownership of vehicles No. UAK 038Z and UAJ 959Z to JCRC. However, by the time of audit, this had not been done. It was noted that management did not conclusively follow up the matter to ensure its closure.

In case of any eventualities such as accidents, theft etc, JCRC cannot conclusively handle the matter without involving the donor.

Management explained that they had acted and the Ministry of Finance, Planning and Economic Development responded to the USAID letter and that by the time of audit, the matter was with Uganda Revenue Authority (URA).

I have advised management to follow up the matter and register the vehicles in JCRC names.

25.1.5 Payments to third parties are not supported by receipts

Standard provision C.16 Sub-provision (a) of the Cooperative Agreement states that “the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the US, the country, or the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) to sufficiently substantiate charges to this award”. Acknowledging receipt of funds upon payment by third parties justifies that payment has been made to the right payee hence deterring misappropriation of THALAS funds.
Audit noted that contrary to the above requirements, payments to third parties were not supported by receipts. Although most of the payments to third parties were by Electronic Funds Transfer (EFT), recipients should have confirmed receipt of their payments by issuing receipts in order to deter any future liabilities. Third parties who were paid by Electronic Funds Transfer (EFT) are not requested to acknowledge receipt of payment. Suppliers not acknowledging receipt of payments may lead to future liabilities as suppliers and other third parties may claim not to have been paid.

Management explained that JCRC was to expedite efforts to continually request receipts from customers paid by EFT or cheque. However, they indicated that they sometimes encounter some delays and difficulties in enforcing this practice in regard to overseas partners/customers.

I have advised management to comply with the provisions of the Cooperative Agreement and request third parties to acknowledge receipt of payment.

25.1.6 Commingling of USAID funds with funds from other sources

Separation of USAID funds from funds from other sources of JCRC’s revenue helps management to verify and reconcile USAID balances held at the end of the financial year, and this eventually deters possible risk of diversion of program funds. In addition, section C.24 of the agreement provides that USAID funds shall not be commingled with other recipient owned or controlled funds.

Audit noted that JCRC still uses one Stanbic bank account for collection of locally generated THALAS funds and other JCRC local funds. This was an indication that management did not appreciate the need to separate USAID funds from those of other programs that JCRC manages.

There is a risk that commingling of USAID funds with funds from other sources could lead to diversion of THALAS program funds and misrepresentation of the program’s fund balance.

Management explained that it would be complicated to operate an additional seven bank accounts at each RCE hence the use of existing RCE accounts for program income. However, income and expenditure was strictly recorded and monitored hence didn’t result into any commingling of funds.

I have advised management to separate THALAS program funds from other program
funds that JCRC manages to deter possible risk of diversion of THALAS program funds.

25.1.7 Reporting Structure of the Internal Audit Department

The Internal Audit department is responsible for ensuring that management establishes and maintains adequate and effective internal controls. In order for Internal Audit function to effectively execute this role and in accordance with Base II rules on corporate governance, which requires the department to be independent of management and report to the Board and the audit committee if they are to objectively review management’s conduct of business and effectiveness.

It was noted that although an audit committee is in existence, the Internal Auditor reports to the Executive Director and his report is instead copied to the audit committee. This is also contrary to the Internal Audit manual requirements. The current reporting arrangements of internal audit function could result in ineffective internal controls due to possible compromise of the independence of the internal audit department and lack of oversight by the audit committee. Management explained that after consultations with the Board of Trustees, it was agreed that the Internal Auditor reports directly to the audit committee of the board and the Executive Director.

I have recommended to management that the Internal Audit Department should report directly to the Audit Committee of the board and only administratively to the Executive Director.

25.1.8 Weak Management Information System (MIS) controls

The integrity of the Management Information System (MIS) is key to the enhancement of data quality and the reliability of reports generated.

It was noted that the MIS policies and procedures were not yet fully updated. A step was taken by JCRC to employ a consultant to rectify the Navision system, however, it was agreed that new software that was to be funded by MSH be installed. This caused further delays in updating the policies and could be attributed to delay in purchase of a new accounting system under the Capacity Building Project of MSH. This may result in unauthorized changes to existing information in the system as well as Loss of information and delays in business processes.

Management explained that they had a proposal to procure a new accounting system, and this was awaiting USAID’s approval. USAID had also approved a new LMG/MSH
project that among other things was mandated to assess and address MIS control issues. I have advised management to update and document MIS policies and procedures.

25.2 Findings on Compliance with Agreed Terms and Applicable Laws and Regulations

25.2.1 Program income used without formal approval from USAID

The recipient generated program income amounting to USD 60,477 from its operating activities. Standard Provision C.2 Sub-provision h of the Cooperative Agreement states that "the recipient shall seek formal approval from USAID on the use of program income funds".

It was observed that out of the total program income of USD 60,477, USD 56,802 was used without formal approval from USAID. Although a request was submitted to USAID, by the time of audit, no formal response had been received from USAID. Management did not wait for USAID’s formal approval before utilising the program income. Non-compliance with the requirements of the Cooperative Agreement could lead to termination of the agreement.

Management explained that timely use of program income was crucial given an extremely limited budget to support THALAS activities especially at regional centres. JCRC specifically requested permission several times from USAID without receiving either any objection or any other formal response. Furthermore, JCRC intended to propose to use program income under cost share for the remainder of the program as a practical solution to addressing the matter.

I have advised management to always comply with all terms and conditions of the award including section C.2 (h).

25.2.2 Non-compliance to PPDA Act 2003 and JCRC’s procurement policies and procedures

A sound and well-managed procurement system ensures effective competition, transparency, economy, efficiency, and value for money; in addition to an elaborate record keeping system, which emphasizes proper documentation. However, Article C.25 of the Cooperative Agreement provides for the recipient (JCRC) to use its own procurement policies and practices for the procurement of goods and services. For the year 2011/2012, the audit team noted that the entity did not implement
the PPDA Act but followed its own Procurement Guidelines Manual (PGM). There was no evidence that the JCRC procurement manual was accredited by the PPDA.

Out of a sample of 25 procurements worth UGX.486,509,467 that were examined, and each one with a minimum value of UGX.10,000,000; excluding the Lab reagents, the following exceptions were noted:-

i. **Lack of an approved Annual Procurement Plan:**
   Section 2.2.3 of the PGM provides for an approved Annual Procurement Plan. The Procurement Department did not have a 2011/2012 approved procurement plan for THALAS but relied on the Standing Orders placed by the individual User Departments.

ii. **Provisions of the PGM were not observed, while undertaking the procurement processes, as follows:**
   a. **Bidding process**
      - **Lack of evidence of “Request for Quotations” sent to bidders:**
        There were scanty records of the invitations to quote which were sent to the potential providers. Out of the 25 cases reviewed, only four were available.
      - **Lack of the record of bid receipt and opening:**
        There was no record of receipt of quotations in all cases examined. The audit team was informed by the procurement department that quotations were received by email, fax and in rare cases, hand delivered. However the audit team noted that there are no safeguards in place to ensure that this system of receipt of quotations is free from possible abuse through sharing of information with preferred suppliers.
   
   b. **Evaluation process**
   **Lack of approval of the evaluation reports**
   The audit noted that all sampled procurements were subjected to a “quotation analysis” which were not approved by either the Contracts Committee or the Finance and Procurement Committee as provided for under sections 2.4.2 and 2.4.3 of the PGM, respectively.

   c. **Contracting and contract management**
   **Lack of framework contracting:**
   Section 3.10.12 of the PGM provides for the use of framework contracting when “the items required are frequent and usually require repetitive purchasing”.
   The team noted that there were several procurements repetitively made in respect of: office consumables, repair and maintenance of motor vehicles, and stationery using the Quotations and Proposal procurement method, instead of using the frame work
arrangement which would have been most appropriate.

d. Reporting

Lack of periodic procurement reports:

It is good practice to make performance reports and submit them to management for purposes of monitoring and supervision.

The audit team noted that the Procurement Department did not prepare periodic procurement performance reports for the year 2011/2012.

The above shortfalls were attributed to lack of training in the procurement concepts as enshrined in the PPDA Laws and regulations.

This implies that:

- PPDA was denied the opportunity to play its regulatory role on the procurement and disposal activities of the Entity (JCRC) for the period audited.
- There is a risk of compromise of principles of fairness and transparency.
- There is a risk of increased procurement costs or lead times, and loss of value for money.
- There was no monitoring of the implementation of the procurement work plan for period audited.
- There is a risk of the entity being reprimanded by PPDA for non-compliance with the PPDA Act requirements.

Management explained that PPDA Authority noted the special needs of JCRC and accordingly accredited JCRC to use an alternative procurement and disposal system for laboratory reagents, drugs and laboratory equipment. This accreditation was granted to JCRC in recognition that 80% of what JCRC’s expenditure is on reagents, drugs, lab consumables and specialized, laboratory equipment, and due to unique nature of operations and activities undertaken by JCRC in Research. Most of the above purchases are patented and supplied by monopoly firms who are prequalified once by the PDU. However, JCRC will comply with PPDA where possible and as the procurement manual is currently undergoing revision, exemptions shall be specified accordingly. Annual Consolidated Procurement Plans will be produced in line with the multiple budgets for research and studies.

I have advised management to fully comply with the PPDA Act and Regulations of 2003 and also to seek PPDA’s assistance in training the stakeholders in procurement aspects.

25.2.3 An Interest bearing account was not maintained for the period July 2011 to
December 2011

Standard Provision C.17 part a. of the Cooperative Agreement states that “the recipient shall maintain advances of USAID funds in interest bearing accounts.”

It was noted that the bank account used to maintain USAID grants for the period July 2011 to December 2011 was not interest bearing. (JCRC was compliant with USAID guidelines with effect from January 2012 and interest in excess of $250 was remitted to USAID). This implies that interest income estimated at USD 1,804.33 (UGX.4,519,856) for the period July 2011 to December 31, 2011 was not received by the program.

Management explained that this fact was also noted in the prior year but was immediately acted on to ensure that limited funds held would earn interest.

I have advised management to always adhere to Standard Provision C.17 of the Cooperative agreement.

25.3 Findings on Cost Sharing Schedule

25.3.1 Inadequate Provision for Cost Share contribution

Section A.7 of the Cooperative agreement states that “the recipient agrees to expend an amount not less than USD 593,999 of the total activity costs (3% of the total budget)”. 

From the schedules submitted by management, the audit team noted that the cumulative THALAS cost share expenditure for the period was USD 271,335 as compared with a budget USD 163,784.

This could be an indication that the budgeted program expenditures and associated cost share are inadequate.

There is a risk that the cost share of 3% of total program budget is inadequate and Program activities may not be implemented if management stringently observed cost share/counterpart funding budget.

Management explained that JCRC had a current indirect cost rate of 32.9%, which rate was not approved by USAID.

EDUCATION SECTOR

26.0 NATIONAL COUNCIL OF SPORTS - 30TH JUNE, 2013

26.1 Funds not accounted for:
26.1.1 **Doubtful payment of utility bills**

UGX.62,882,450 paid as utility bills for water, electricity and internet services lacked relevant acknowledgement rendering the expenditure doubtful.

I advised management to avail acknowledgement receipts for audit verification.

Although management in their response explained that Supporting documents were properly filed they were not submitted for verification.

I advised management to obtain the acknowledgement receipts for verification.

26.1.2 **Outstanding Advances**

UGX.40,922,444 advanced to various officers for official activities lacked necessary accountability contrary to financial regulations.

Delayed accountability may result into falsification of documents and loss of funds.

Although in their response management stated that the matter had been rectified and all money advanced to council members had been accounted for, this was not the case.

I have advised the Accounting officer to submit the accountability or recover the funds from the concerned staff.

26.1.3 **Failure to account for Imprest funds.**

Treasury Accounting Instructions 233 and 234 states that the Holders of imprest warrants will maintain separate cash books in respect of each imprest warrant held and Imprest Holders are prohibited from utilizing their imprests for purposes other than those stated on their imprest warrants respectively. However the entity did not avail the petty cash books and imprest warrants for the imprest of UGX.40,693,400. Besides, all the imprest advanced to the imprest holder remained un-accounted for.

Though management stated that accountability documents for the imprest were available, they were not submitted for verification.

I advised management to avail the accountability and the imprest cash book for verification.

In the alternative, the funds are recoverable.

26.1.4 **Missing Vouchers**
According to Regulation 60 (1) of Public Finance and Accountability Regulations, (PFAA) 2003 all disbursements of public monies shall be properly vouched on payment vouchers prescribed by the Accountant General. On the contrary, payment vouchers for UGX 24,232,000 were not submitted for verification.

Though management indicated that the vouchers were available, they were not submitted for verification.

I have advised management to trace and submit the vouchers for verification.

26.1.5 **Un Accounted for Fuel**

Regulation 120 of the Treasury Accounting Instructions states that all payment vouchers must be properly supported with appropriate documents or sub-vouchers before they are passed for payment of any form of expenditure. However, UGX 5,841,500 incurred on fuel lacked supporting documents such as Motor vehicle movement log books, statements of fuel consumption and deposit receipts.

Delayed accountability may result into falsification of documents and possible loss of funds. Though management indicated that the documents were available, they were not submitted for verification.

I advised management to submit all the relevant accountability documents for verification or recover the funds from the concerned staff.

26.2 **Lack of key components in the financial statements**

Contrary to financial regulations, the Council financial statements lacked the following important information; Board of Survey Report, Bank reconciliations, Bank certificates, and detailed schedule of assets indicating existing assets, additions and corresponding values for the assets. Also missing were the Executive Summary detailing planned activities, achievements and the challenges encountered during the implementation of the planned activities.

Although in response, management stated that the components were available, verification revealed that the assets and cash and or bank had not been confirmed by any survey team.

I advised management to ensure that all prescribed components of the financial statements are prepared and presented for audit.

26.3 **Debtor management**
The council debts increased from UGX.77, 574,033 to UGX.125, 434,500 indicating a percentage increment of 61%. Besides the schedule of debtors lacked proper analysis of additions and payments during the year.

I explained to the accounting officer that, Improper management of the debts may result into liquidity shortages to the detriment of the Council.

In response, management stated that all Ledgers for Debtors had been updated and that all Council members and staff were barred from getting advances in order to reduce on the debt.

I advised the Accounting Officer to institute and implement a debt management policy in the Council.

26.4 **Payables**

The Payables increased from UGX.107, 113,085 to UGX.163, 965,514 indicating an increment of UGX.56,852,429 (53%). It was also noted that some Creditors had been outstanding for more than nine years implying that the credit management policy is not implemented. In addition the schedule of creditors lacked analysis of additions and payments during the year. Accumulation of liabilities contravenes the government commitment control system and may result into litigation to the detriment of the entity.

In response, management explained that for some of the creditors, they were still negotiating for exemption from paying the dues because NCS being a Government body in charge of Sports did not in any way charge commercial rates on its properties to National Sports Associations and therefore management wrote to Kampala Capital City Authority for waiver.

I advised management that an effective credit management policy should be instituted and implemented.

26.5 **Non- maintenance of invoice register**

TAI, 2003, Cap iv, para 194 requires the accounting officer and imprest holders to maintain invoice registers with recorded details of each invoices received, the relevant local purchase orders and payment vouchers on which payments are made. The council however did not maintain an invoice register thereby impairing proper recording and aging of debts. Management acknowledged the omission and promised to prepare to put in place one.
I wait for management’s action on the matter.

**26.6  Lack of segregation of duties**

It was noted that the Assistant Accountant also acted as head of the procurement unit and stores manager. The practice impairs checks and balances within the entity and may result into anomalies remaining undetected over a long period. In response, management stated that limited wage bill constrained their efforts to recruit enough staff.

I advised management to ensure Key functions of the entity are performed by different staff to ensure checks and balances in the system.

**26.7  Irregular Micro Procurements**

Contrary to regulation118 (8,9,10) of the Public procurement and Disposal of Public Assets ,2003 a sum of UGX.8,182,400 was incurred on Micro Procurement without evidence that such procurements were reported to the Contracts Committee as required by Regulations.

I explained to management that some items above the threshold may be purchased or procurements may be split without notice of the contracts committee.

I advised management to prepare reports for accountability purposes and avail them for verification as they ensure that procurement guidelines are observed in future.

**26.8  Grounded Assets**

It is best practice that when an entity acquires an asset, it should be well maintained and looked after so that it lasts longer. Proper asset maintenance lengthens an asset’s lifespan. When the asset is no longer in use, it is best practice that the asset is boarded of. However, it was noted that motor vehicle number UAA 292 E had been grounded for an unspecified period at the council premises. No step had been taken to either repair or board of this asset.

Management responded that it was in the process of disposing or revaluing all items with zero net book value.

I advised management to make arrangements to either dispose of or repair the asset to avoid asset wastage through deterioration.

**27.0  MANAGEMENT TRAINING AND ADVISORY CENTRE - YEAR ENDED 31ST DECEMBER, 2012**
27.1 Improper depreciation of land

The Centre has been depreciating land and buildings together as a consolidated figure. I have informed management that Land and buildings are separate assets and must therefore be treated differently as required by the IFRSs. This is because, whereas the buildings are depreciable assets, land is not and normally appreciates in value. In the circumstances, the value of land and buildings reported as UGX. 2,425,767,872 is understated to the extent of the unwarranted accumulated depreciation. The matter is also included in my previous reports but management has not addressed it accordingly.

Management in response acknowledged the state of affairs and indicated that their efforts indicated that repeated formal Asset Valuation requests to the Government Valuer have not been forthcoming. I have advised management to take up the matter with the line Ministry.

27.2 Funds not accounted for

- Doubtful expenditure

A sum of UGX.19,347,800 was paid to some officials as overseas travel expenses and perdiem to attend workshops, meetings and training programmes. However, documents such as invitation letters, relevant passport pages and back-to-office reports were not availed for verification contrary to TAI 181. In certain instances the purpose of travel was not specified thereby rendering the expenditure doubtful. Whereas management in response indicated that the accountability documents were available, there was no documentary proof to this effect.

I have advised management to provide the necessary documentation or recover the funds from the concerned officers.

- Fuel expense not accounted for

UGX.33,266,556 was paid to a fuel station during the financial year under review. However, consumption statements and vehicle movement log books were not availed for audit review contrary to TAI 181. In the circumstances, there is a risk that the funds were not expended for official duties.
Although management availed accountabilities in form of consumption statements for the Centre’s two old motor vehicles, the movement log books were not in place while the odometers were non functional. The team further stated that they were in the process of disposing of these vehicles after obtaining permission from the 1st Deputy Prime Minister/Minister of Public Service to purchase motor vehicles.

27.3 **Absence of an audit committee**

It was noted that the Governing Council had not appointed the Audit Committee as stipulated in section 3.0 of the MTAC Financial and Accounting Manual. I informed management that lack of an oversight function impacts negatively on the effectiveness of the Council.

Management in response undertook to present the matter at the next Governing Council meeting. I await management’s commitment in this regard.

27.4 **Inadequate IT system**

MTAC uses tally accounting package to process its accounting information. However contrary to best practice, modules for invoicing, receipting as well as cheque preparation are not yet operationalized resulting into manual operations. There was a risk that errors would occur in the financial statements as automated operations were mixed with manual inputs.

In response, management attributed the manual transactions lack of a steady power supply. However, a standby generator had been acquired and full automation of the accounting operations was the next course of action. I await management’s commitment in this regard.

28.0 **THE UGANDA NATIONAL EXAMINATIONS BOARD (UNEB) - YEAR ENDED 30TH JUNE, 2013**

28.1 **Incomplete Fixed Assets Register**

Regulation 12.5.3 of the UNEB Financial and Accounting Regulations Manual requires an
Assets Register to be maintained showing details of the assets such as; date of acquisition, supplier, manufacturer’s part number and Asset code number together with the net book value and details of major repairs. However, a review of the Fixed Asset register showed that the above details were not shown for most of the assets. It was therefore not possible to ascertain whether the assets were fairly valued.

Management explained that procurement of Asset Valuation services had been initiated to revalue all UNEB assets and to have the asset register updated to capture the missing details. I have advised Management to expedite the procurement process and ensure that the asset revaluation exercise is undertaken.

28.2 Failure to link Strategic Plan to Annual Plan

In accordance with section 13.1 of the UNEB Financial and Accounting Manual the Board developed a Strategic Plan running from 2012/13-2016/17. Review of implementation of the plan for the financial year ended 30th June 2013 revealed the following;

- Management did not prepare annual activity Work Plans that would link the budget to the Strategic Plan.

- Departmental heads produced quarterly Performance Reports that were not quantified despite guidance from the Planner. The departments of Administration, ICT and Procurement did not produce quarterly performance reports.

Such practices may not allow the achievement of the objectives in the Strategic Plan. Management undertook to ensure that the budget activities are aligned to the Strategic Plan. I await management’s action on this undertaking.

28.3 Non-computerized Revenue Receipts

It was noted that UNEB handles a large volume of revenue from eighteen sources using manual receipting processes. Manual receipts are not only difficult to reconcile but are also prone to abuse. It was noted that three DotMatrix Printers procured in March 2012 at a cost of UGX 15,097,500 for receipt printing had not been put to use to date. Records also indicated that a local firm awarded a contract for supply of computerised receipts and invoices could not execute the work because of disagreement with the board over amendment of some clauses in the contract. Management explained that the contract
was cancelled and a new procurement under the Direct Procurement method was underway. I have advised management to ensure that the procured equipment is put to the intended use to reduce on the printing costs and to avoid loss of the equipment through obsolescence.

28.4 **Review of the Task Force Report Findings**

In July 2013, the Chairman of the Board commissioned a Task Force of independent members to study the effectiveness and efficiency of UNEB systems on behalf of the Board. The task force produced their report dated 18th July 2013 and this report was further reviewed by the Adhoc Committee of the Board. Review of the report indicated that some of the findings could be impacting on the performance of the Board. For example;

- Some staff working for long hours in a confined environment for 2 months.
- Inadequate office and storage facilities.
- Lack of training plan for staff.
- Under staffing leading to over engagement of temporary staff.
- Limited ICT awareness.
- Few printing machines and their frequent breakdowns.
- Improper appraisals and promotion channels.
- Outdated UNEB Act and other weak laws to handle exam malpractices.
- There was a dormant account in Standard Chartered Bank that could be abused.

I have advised management to address the recommendations in the report.

29.0 **NATIONAL CURRICULUM DEVELOPMENT CENTRE (NCDC) - YEAR ENDED 31ST DECEMBER, 2012**

29.1 **Delayed Settlement of Payables**

Payables stood at UGX. 194,279,959 as at 31st December 2012, down from UGX.204,648,839 at the beginning of the year. Included in the figure are payables worth UGX 140,275,573 that have remained unsettled for more than 15 years (since 1998). I informed management that the state of affairs is in contravention of regulation 255 of Public Procurement and Disposal of Public Assets Regulations, 2003, which requires that payments be made within 30 days from the certification of invoices. In the
circumstances, the Centre is exposed to a risk of legal suits and attendant costs.

I have advised management to settle the payables without further delay.

29.2 Failure to review BTVET Curriculum

Section 18(3) of the NCDC Act, 2000 states that the Board shall nominate for appointment by the Council, teachers, inspectors and officers with knowledge and experience to form subject panels in specific curriculum areas to facilitate the reviews.

During the year, the Centre received a total of UGX.247,174,400 (UGX.124,703,200 on 29/Feb/2012 and UGX.122,471,200 on 19th July/2012) from the Ministry for review of BTVET Curriculum, namely:

- Refrigeration and Air conditioning
- Water and Sanitation Engineering
- Information and Communications Technology
- Industrial Ceramics and Architectural Engineering

However, it was noted that the Council appointed the Subject Panel members on 14th December vide Min 9/67/12. Delayed execution of planned activities undermines the operational objectives of the Centre.

Management in response explained that each subject panel is composed of 18 panel members who are specialists in the subject area and sourcing for 18 panel members per subject proved very difficult. Consequently, the Centre settled for sub-panels the names of whose members were presented for approval by the Governing Council. Owing to the fact that the professionals are difficult to come by, the few available panel members require to be paid highly in terms of performance-related allowance than the Centre could afford. Therefore, management only engaged those who were willing to accept the Centre’s established rates. This also caused delays in finalization of curriculum materials. According to management, the curriculum materials had since been approved by the council and were ready for rollout to the colleges.

I have advised management to always endeavour to comply with the provisions of the NCDC Act.

29.3 Incomplete Contract Works

Examination of procurement records with respect to ground leveling and landscaping of
NCDC revealed that the contracts committee at its 102\textsuperscript{nd} meeting held on the 30th November 2011 awarded a contract to M/S Bernar Technical Services Ltd at a sum of UGX.116,609,317, plus a variation of UGX.17,448,660. However, the following anomalies were noted:

- Despite extension of the completion date 4 times, the works were still incomplete by 17th August 2012 when the last extension expired.
- The soil retaining wall at the northern wall had already developed cracks.
- The contract was terminated after payment of a total of UGX.120,652,179 leaving a balance of UGX.13,405,798 (equivalent to the retention). There is a risk that the retention monies could be insufficient to complete the remaining works.

No performance security was held by the Centre for this contract thereby limiting the possibility of recovery of funds for the inadequate works. Also noted was the non-availability of a report on the value of the unfinished works.

In their response, management:

- Regretted the omission for not demanding a performance security. However, a decision was taken to terminate the contract due to delays as evidenced by the 4 extensions.
- Promised to take remedial action so as to safeguard the works from further deterioration.

I have advised management to secure future contracts with performance security so as to safeguard public funds. Meanwhile, I await the outcome of management commitment to protect the completed works from further deterioration.

30.0 NATIONAL COUNCIL FOR HIGHER EDUCATION FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2013

30.1 Unauthorized Over Expenditure

The Council exceeded its budgeted expenditure on various items by UGX.137,739,750 without relevant authority contrary to Section 16 of the Public Finance and Accountability Act, 2003. The practice distorts budgetary controls and may result into misappropriation of funds.
Although management stated that the required authority had been granted, there was no evidence to this effect. I have advised management to trace and submit the relevant documentation for verification.

30.2 Non-implementation of planned activities

Various activities costed at UGX.925,000,000 that had been scheduled for implementation were not carried out as indicated in the table below;

<table>
<thead>
<tr>
<th>No.</th>
<th>Activity</th>
<th>Expected output</th>
<th>Cost Implication</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Monitoring 2 Chartered universities</td>
<td>Progress report on visited institutions</td>
<td>20,000,000</td>
<td>Monitored only 1 chartered university</td>
</tr>
<tr>
<td>ii.</td>
<td>Monitoring 5 universities with provisional licences</td>
<td>Progress report on visited institutions</td>
<td>20,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>iii</td>
<td>Monitoring visits to 2 existing Public Universities</td>
<td>Progress Reports on the 2 Public universities monitored</td>
<td>20,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>iv</td>
<td>Institutional Audits &amp; Self evaluations</td>
<td>Reports of audits and self evaluations of selected universities</td>
<td>15,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>v.</td>
<td>Training Assessors in programme and institutional assessment</td>
<td>Reports on training activities</td>
<td>15,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>vi</td>
<td>Operationalize the Credit Transfer &amp; Accumulation System</td>
<td>Reports of views from stakeholders</td>
<td>10,000,000.00</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>vii</td>
<td>Train &amp; sensitize data update officers on data collection instrument</td>
<td>Submission of accurate information from institutions</td>
<td>15,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>viii</td>
<td>Building of NCHE New Home</td>
<td>Phase 1 done</td>
<td>800,000,000</td>
<td>Activity not carried out.</td>
</tr>
<tr>
<td>ix</td>
<td>Procurement of 1 motorcycle</td>
<td>Motorcycle in place</td>
<td>10,000,000</td>
<td>Activity not carried out.</td>
</tr>
</tbody>
</table>

TOTAL 925,000,000

Management explained that funds were reallocated from several activities to bolster the budget for the investigation of KIU PHD degrees. I have advised management to ensure prioritization and sequencing of key activities for the achievement of the council mission and objectives.
30.3  **Staffing shortages**

30.3.1 **Understaffing of Internal audit unit.**

According to NCHE internal audit structure, the internal audit department should be headed by a Principal Internal Auditor, assisted by the Senior Internal Auditor and an Internal Auditor. However, the department is headed by an Auditor who is the only officer in the department implying that necessary qualification and experience is lacking in the oversight function.

In response, management explained that with increased funding and provision of additional office space, more officers would be recruited into the department. I have advised management to ensure that the key positions are filled to improve on the oversight functions at the Council.

30.3.2 **Understaffing of Legal Unit**

Review of the staffing of the legal unit revealed that the Council had only one Senior Legal Officer yet the organizational structure provided for the Director, Principal Legal Officer, Senior Legal Officer and Legal Officer. Staffing shortage may imply that the Council lacks adequate legal support.

In response management attributed the staffing shortage to inadequate funding and office space. I have advised management to ensure adequate staffing of the legal unit since the functions of the council are vulnerable to legal challenges.

30.4  **Payment of NCHE fees**

30.4.1 **Non-compliance with Fees payment procedures**

Section 3(2) of Statutory Instrument 2010 No. 17 requires all students to pay the fees directly to the National Council for Higher Education Bank Account. However, review of the ledger statements showed that some institutions collected cash from students and paid to the Council. Examples of such institutions were College of Nursing; UGX.3,760,000 and Pearl Academy; UGX. 13,129,750. There is risk of under remittance of funds by the entities.

In response, management acknowledged that some institutions had collected and
remitted the students’ contribution as a block but management had since reminded them to urge the students to pay directly into the NCHE bank account. I await the outcome of management’s action.

30.4.2 **Non-reconciliation of fees payments**

Whereas the institutions are required to submit student’s lists to NCHE for purposes of enabling reconciliation of fees payments, such reconciliation was not submitted for audit verification thereby hindering independent confirmation of the fees collections.

In response, management explained that written reminders had been sent to all institutions to always submit lists of the registered students two weeks after registration to enable reconciliation of fees. However, the reconciliation statements were not submitted for review.

I have advised management that failure to reconcile fees collections against student lists may result into under collection of revenue.

30.5 **Failure to code revenue and expenditure items**

The Treasury Accounting Instruction Paragraph 400, requires financial transactions to be recorded in the books of accounts in accordance with the Government of Uganda Chart of Accounts as prescribed by the Accountant General. Contrary to the above requirement, all the transactions in the Financial Statements were not coded and this could result into mis-classification of transactions in the financial statements.

In response, management explained that the tally system being used at the moment does not have the provision for GOU Chart of accounts but uses own chart of accounts.

I have advised management to liaise with the Accountant General to ensure prescribed Chart of Accounts is used in the council for ease of classification of the accounts.

30.6 **Procurement irregularities**

30.6.1 **Irregular Contract Variation**
PPDA Regulation 262 (6) requires approval by the Authority of any variation exceeding 25% of the contract sum. On the contrary, a contract awarded for Hotel Services was varied from UGX.37,153,800 to UGX.48,084,200 (29%) without PPDA approval. I have advised the Accounting Officer to always seek authorization from the Procurement Authority for contract variations as prescribed in the Procurement Law.

30.6.2 Delayed Contract Implementation and Management

Regulation 260 (1) (b) of PPDA states that, the Contract Manager shall ensure that the service provider performs a contract in accordance with the terms and conditions specified in the contract. However, it was noted that whereas the publication of minimum standards by M/S Pinnacle Integrated Resources (U) was supposed to be accomplished within 30 days after the issue of the LPO, instead it took three months without any evidence of sanctions being undertaken against the supplier.

Management responded that they had since appointed Contract Managers for various procurements. I have advised the management to ensure necessary sanctions are imposed on non-compliant providers.

30.6.3 Inadequate staffing of Procurement Unit

The staff establishment in the Procurement unit provides for a Senior Procurement and Logistics Officer (SPLO), Procurement and Logistics Officer (PLO) and the Assistant Procurement and Logistics Officer (APLO). However, it was noted that the Procurement Unit is staffed with only one officer, the Procurement and Logistics Officer. Understaffing of critical offices may result into inefficiencies in provision of services.

In their response, management noted that the issue of personnel in the different departments would be solved as funding and office space increases. I have advised management to recruit more staff for effective and efficient service delivery.

30.6.4 Irregular Cancellation of Procurement

Review of procurement records revealed that a hotel was originally evaluated as best bidder for supply of hotel services at UGX.13,677,000. However, the service was
procured from a different hotel at UGX.27,820,000 which was later varied to UGX.35,540,000 implying variation of 27% without relevant authority from the contracts committee and/or PPDA.

In response, management stated that it was discovered later that the best evaluated bidder could not comfortably accommodate the number of people who were invited for the workshop and this necessitated change in venue.

I have advised the Accounting Officer that cancellation of an offer ought to be approved by the Contracts Committee and where the change is above 25% a fresh invitation of bids should have been undertaken. In the circumstances the procurement should be investigated

30.7 Lack of Board of Survey Report

The Treasury Accounting Instructions Para.463 require appointment of a Board of Survey to examine the cash, stamps securities and bank balances in the hands of Accounting Officers and the Revenue stamps held by officers after the close of business on the last business day of each financial year, or before the commencement of business of the following financial year. Contrary to the above a board of survey report was not submitted by the entity

In response, the Accounting Officer explained that the Board of Survey team was deployed after the audit. I have advised the Accounting Officer to always liaise with the Accountant General’s office to ensure timely survey of the entity’s items at the closure of the year.

31.0 NAKIVUBO WAR MEMORIAL STADIUM TRUST FOR THE YEAR ENDED 31ST DECEMBER 2012

31.1 Review of the financial statements

31.1.1 Effects of previous year’s qualification matter

During the year ended 31st December 2011, an amount of UGX.11,790,018 that was withheld by a client and paid directly to URA on behalf of the Trust was erroneously
reported in the Statement of Cash flows and but was excluded from Statement of Performance as taxation paid. I was not able to obtain sufficient appropriate audit evidence that the effects of this matter on the opening balances do not materially affect the Trust financial performance and cash flows for the current year.

31.1.2 Understatement of non-current assets

Under Note 2 to the Financial Statements, management made a disclosure regarding the understatement of non-current assets in the year 2010 to the tune of UGX 719,999,969. According to management, the error was corrected during the year under review. However, the correction was not evident in the financial statements as a prior year adjustment. I was also not availed with the underlying records to ascertain the amounts and the possible effects on the financial statements.

I have advised management to ensure that the assertion in the note is affected by adjusting the financial statements.

31.1.3 Outstanding VAT obligations

It was noted that the Trust had an outstanding obligation of VAT with Uganda Revenue Authority (URA) amounting to UGX 865,936,279 including interest and penalties. Whereas the Trust signed a memorandum of understanding with URA to settle this obligation in 24 installments running up to May 2015 with a provision for receivership if there was default, the Trust has had no clear settlement plan. There were indications of inability to pay since the liability has continued to be reported for the last 5 years and only UGX 60m was paid during the year. There is a risk that the Trust's assets may eventually be attached by URA to recover the taxes.

The team management explained that the Board had resolved to use the income generated from Park Yard Market to settle the VAT arrears. I have advised management to have a clear settlement plan for the VAT arrears to avoid stern actions by URA.

31.2 Governance issues

31.2.1 Role of Board Members
Principles of good corporate governance require that there is separation of Board and management responsibilities. It was noted that the Board Chairperson and two members of the board are signatories to the Trust bank accounts and were involved in the day-to-day operations of the Trust for example, it was the Chairperson Finance Committees that approved payments. There was no evidence that the Board considered any strategic matters for management to implement. This is an indication of fusion of responsibilities and leaving the Trust without a clear strategic direction.

In response, management acknowledged the state of affairs and undertook to present the matter to the Board but indicated that some of the members were empowered by the Act to manage the Trust. I have advised management to take up the matter with the Line Ministry to ensure that the board’s functions are divorced from the routine operations of the Trust and perform their rightful obligation of providing strategic direction.

### 31.2.2 Absence of key policies

It was noted that key strategic policies that would enable the Trust operate efficiently and effectively were lacking which contravened good governance practices.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Policies on fixed assets</td>
<td>To guide in the management of the fixed assets of the Trust</td>
</tr>
<tr>
<td>2 Risk Management and Fraud control policy</td>
<td>To mitigate challenges/events that would prevent management from achieving the Trust objectives</td>
</tr>
<tr>
<td>3 Revenue Management &amp; Credit policy</td>
<td>To guide in the effective management of the Trust's revenue and debtors</td>
</tr>
</tbody>
</table>

Absence of policies implies that management actions are not properly guided and may negatively affect the operations of the Trust.

Management explained that all these issues were contained in Trust Act that governs the Trust. I have advised management to ensure the sections in the Act are made operational by formulating and approving detailed policies.

### 31.3 Revenue management

#### 31.3.1 Revenue Shortfall
During the financial year under review UGX 356,022,351 was collected as revenue against a budget of UGX 551,872,277 resulting in a shortfall of UGX 195,849,926 (35%). Failure to collect the budgeted revenue constrains management in the implementation of planned activities. There were also notable delays in posting the revenue cash book, leading to delayed monthly reconciliations.

Management attributed the shortfall in revenue to the unpredictable nature of some revenue sources such as, Trust hire for which there were no signed contracts to guarantee its collection. I have advised management to strengthen controls over revenue collections and plan to collect all budgeted funds.

31.3.2 Register for receipt books

It was noted that the Trust did not maintain a register for recording the stock of revenue collection receipt books. As a result, it was not possible to ascertain the exact number of receipt books that were procured and used during the financial year. Failure to maintain such a register exposes the Trust to a risk of loss/under declaration of revenue collections.

Whereas, management explained that the receipt books are maintained for proper revenue collection, there was no proof to this effect. I have advised management to ensure that revenue collection receipts are recorded when received and issued.

31.3.3 Rental Income

The Trust rents out space within the facility to various business operators. However, the tenancy agreements and a list of all the tenants were not availed for review. In this regard, it was not possible to ascertain the correctness of the revenue of UGX 176.4m reported in the financial statements. Although management explained that the agreements existed, none was presented for examination.

I have advised management to streamline renting of space and maintain all the required documentation including tenancy agreements.

31.4 Unauthorized Expenditure
A review of the budget performance for the financial year indicated that there was an over expenditure on certain items shown in the table below without approval of the Board.

<table>
<thead>
<tr>
<th>Item</th>
<th>Budgeted amount (UGX)</th>
<th>Actual (UGX)</th>
<th>Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board expenses</td>
<td>16,186,060</td>
<td>37,062,900</td>
<td>20,876,840</td>
</tr>
<tr>
<td>Transport costs</td>
<td>2,161,760</td>
<td>4,652,000</td>
<td>2,490,240</td>
</tr>
<tr>
<td>Property cost</td>
<td>48,371,032</td>
<td>64,029,000</td>
<td>15,657,968</td>
</tr>
<tr>
<td>Professional fees</td>
<td>2,878,200</td>
<td>14,400,000</td>
<td>11,521,800</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>36,818,938</td>
<td>121,245,240</td>
<td>84,426,302</td>
</tr>
<tr>
<td><strong>Total (Excess)</strong></td>
<td><strong>106,415,990</strong></td>
<td><strong>241,389,140</strong></td>
<td><strong>134,973,150</strong></td>
</tr>
</tbody>
</table>

In this regard, expenditure that is over and above the budgeted amounts remains an irregular charge in the financial statements.

Meanwhile, the Trust was penalised by Uganda Revenue Authority with fines and interest on VAT of UGX.575,873,720 for noncompliance with the tax laws. This amount that has been accrued as a payable is regarded as nugatory because it could have been avoided if management had taken measures to pay the taxes as and when they arose.

Management acknowledged the anomaly and undertook to bring the matter to the attention of the Board. I have advised management to avoid overspending the budget items without the necessary approval of the Board.

### 31.5 Unsupported expenditure

UGX.19,500,000 was purportedly paid to settle utilities bills but there were no copies of the bills and receipts in support of the payments. Besides, no utility ledgers and reconciliations statements with the service providers were presented for audit examination. There is a risk that the money may not have been received by the respective payees.

Management explained that postdated (PD) cheques were issued to NWSC pending collection of receipts but were acknowledged in a memorandum of understanding. This was not presented to me to verify. I have advised management to maintain utility ledgers and ensure that the documents regarding utility bills payments are secured and properly filed.
31.6 **Out-dated Financial Management Manual**

Best practice requires that Manuals are regularly reviewed and updated to keep abreast with current trends in Governance. However, the Trust’s financial management manual that was approved in 1995 has never been reviewed and updated ever since. The manual in its current form cannot allow management to run and report the financial affairs of the Trust in accordance with the current financial reporting requirements.

Management noted the anomaly and agreed to take the necessary measures. I have advised them to review the manual and update it to reflect current trends in financial management and reporting requirements.

31.7 **Inadequate bookkeeping standards**

It was noted that the cash books and ledgers were not kept and maintained up-to-date. The transactions were posted several months after occurrence. For instance by the time of the audit (September 2013);

- The Accounts Assistant was in the process of updating the cash book with transactions of 1st March 2013 to 30th June 2013. This caused delays in carrying out monthly reconciliations.

- It was noted that the Accounts Assistant consistently recorded receipts in the cash book in pencil. In the circumstances, the information contained in the cash book may not be credible as it subject to changing at the convenience of the Accounts Assistant.

These weaknesses point to lack of adequate supervision by management and laxity by the officer in performing his duties. I have advised management to enhance supervision of the accounts staff and ensure that books of account are promptly posted and reconciled.

31.8 **Personnel issues**

**Improper Filing of Staff Records**

A review of personnel files revealed that many of them were incomplete. For instance
some files lacked appointment letters, employment contracts and academic qualification documents, while in other instances; it was not possible to ascertain the procedures used to recruit the personnel due to absence of the necessary documentation at the Trust.

Management explained that majority of the employees were employed under casual arrangement and therefore letters contained in their files were a basis for their employment. I have advised management to ensure that the staff records were updated with all the necessary information and also to streamline the recruitment of casual staff.

31.9 **Procurements Anomalies**

It was noted that there was no functional Procurement and Disposal Unit (PDU) and a Contracts committee to handle all the Trust’s procurements and disposals requirements, contrary to the requirements of the PPDA Act 2003.

In the absence of the PDU, the procurement and disposal functions were performed by one individual which exposed the Trust resources to the risk of misappropriation through uncontrolled procurement processes, for example;

- There was no approved procurement plan for the financial year.
- There was no initiation of procurements by the user departments contrary to Regulation 104 of the PPDA Regulations, 2003.
- There was no approved list of pre-qualified suppliers contrary to Regulation 142 of the PPDA Regulations, 2003.
- No procurement reports were prepared and submitted to PPDA as required by the law.
- Procurement undertaken without approval of the procurement method.
- Procurements were undertaken without proper initiation because no PP Form 20 was filled in all cases.
- Procured materials/goods were not entered in the stores ledgers and lacked supporting documents such as requisition, purchase orders, delivery notes and goods received notes.

Management acknowledged the weaknesses and undertook to follow the procurement law. I have advised management and the Board to put in place proper procurement structures and ensure that all procurements are undertaken in accordance with the
procurement law and guidelines.

31.10 Management of Fixed assets

31.10.1 Lack of Fixed Assets Register
Contrary to best practice, there was no Fixed Assets Register maintained for all the Trust’s assets. As a result it was not possible to ascertain the details of the assets owned by the Trust. There is a risk that the assets could be misappropriated without detection by management.

In their response, management explained that the Trust was currently maintaining an asset ledger which could be used to update the asset register and were planning to revalue the assets to obtain accurate figures that can be recorded in the asset register.

I have advised management to ensure that a proper assets register is kept and properly maintained to allow for proper tracking and monitoring of all assets owned by the Trust.

31.10.2 Fully Depreciated motor vehicle
It was noted that the Trust’s vehicle had been fully depreciated yet the company continues to derive economic benefits therefrom without revaluing it to reflect this reality in the financial statements. This is contrary to the requirements of IAS 16 regarding the residual value and useful life of an asset. In response, management stated that they were in the process of revaluing the motor vehicle.

I have advised management to review the useful life and residual value of the vehicle and make the necessary provisions in the financial statements.

32.0 MANDELA NATIONAL STADIUM LTD FOR THE YEAR ENDED 31ST DECEMBER, 2012

32.1 Non-Disclosure of Share Capital
The Articles and Memorandum of Association for Mandela National Stadium Limited shows that the company had authorized share capital of UGX.100,000,000 divided into 10,000 ordinary shares of UGX.10,000 each. Only 2 Ordinary shares worth UGX.20,000 were subscribed to by the Government of Uganda represented by the Minister for Finance, Planning and Economic Development and the Minister for Education and Sports with 1 Ordinary share each.
However, this position was not reflected in the Statement of Financial Position. Also noted was that there was no evidence of shareholders' payments for the shares they subscribed for. The financial statements were misrepresented in this regard.

Management explained that they had challenges at the stadium including lack of appropriate records to guide appropriate recognition of certain items in the financial statements.

I have advised to the stadium management trace the necessary records and disclose the shareholders’ funds in the financial statements.

32.2 Accumulated Operating Losses

A review of the Statement of Financial Performance revealed that the Stadium had accumulated operating losses of UGX.3,610,495,520 of which UGX.375,474,615 related to the current financial year while the balance had accumulated over time. In the circumstances, the going concern of the company may be compromised. It also implies that the Stadium may not continue to operate without capital restructuring. Management explained that the stadium had suffered several challenges that have eroded the stadium capacity to do business in a business-like manner over the years.

These challenges included:

- Frequent unplanned change of stadium leadership and management teams,
- Various Government departments and agencies having used the stadium facilities in the past but had not paid for the services consumed,
- Vandalizing the stadium assets and equipment by users of the stadium,
- Lack of Government funding to the stadium,
- A long history of accumulated creditors which include statutory institutions such as National Social Security Fund (NSSF), Uganda Revenue Authority (URA).

I have advised management to take up the matter with the line Ministry and have the challenges addressed.

32.3 Treatment and disclosure of Chinese Grant
Management asserted in the Accounting Policies under 1 (a) that the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs). However, review of the financial statements with regard to the treatment of the Chinese Grant revealed that there was noncompliance with the standards in respect of this Grant as illustrated below;

- IAS 20 (24), Accounting for Government Grants and Disclosure of Government Assistance, requires that a grant relating to assets may be presented in one of two ways: as deferred income, or by deducting the grant from the asset's carrying amount. However, management did not state which of the two ways had been adopted with regard to the Chinese Grant through GoU for the construction of the stadium.

- The Standard requires that the grant should be recognized as income over the periods necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. However, audit noted that no portion of the grant has been recognized through the statement thus misrepresenting the grant in the Income statement.

- The standard further requires that such grants should not be credited directly to shareholders' interests. The current treatment of the grant in the Balance Sheet under “capital & Reserves” implies that the treatment appears to be contrary to the requirements of the standard and misleading.

- A balance of UGX.26,851,323,480 was reported in the Statement of Financial Position as a Chinese Grant under Capital & Reserves after deducting the current year's operating deficit of UGX.375,474,615. However, the reduction was not explained and appeared to be misplaced.

In the above circumstances, the reported balance may not be fairly stated and the management’s assertion that the financial statements were prepared in accordance with IFRSs may not be correct.

In response, management explained that they experienced lots of challenges at the stadium to the extent that basic records that would guide appropriate recognition of the items could not be traced and the only information which existed were the figures that appeared in annual accounts as opening balances.
I have advised management to comply with the requirements of IAS 20 which prescribes treatment of Grants.

32.4 **Misrepresentation of the Stadium Cash flows**

A review of the statement of cash flows revealed that the increase in payables of UGX.390,902,067 (UGX:2,270,882,011 less UGX.1,879,979,944) was erroneously reported as a cash outflow of UGX.255,535,138. The cash flows of the Stadium are therefore misrepresented.

Whereas management in response acknowledged the anomaly, the necessary adjustments were not made in the financial statements.

I await any actions to be taken by management to make necessary adjustments in the financial statements.

32.5 **Statutory obligations**

32.5.1 **Un-discharged statutory obligations**

The stadium reported outstanding creditors of UGX.2,270,882,011 which included statutory obligations amounting to UGX.270,329,307 related to URA taxes while UGX.1,660,825,911 was due to NSSF in form of arrears and penalties relating to the years 2004 to 2012. There is also a risk of other creditors taking legal actions resulting into additional costs.

Review of the financial statements showed that the current ratio for the previous and current year was 0.43:1 implying that the stadium is impaired to meet these obligations and continue operating as a going concern.

32.5.2 **Failure to Furnish a Return of Income**

Section 92(1) of the Income Tax Act Cap 340, requires every taxpayer to furnish a return of income for each year of income of the taxpayer not later than six months after the end of the accounting year.
However, it was noted that Mandela National Stadium Limited failed to furnish Income Tax Returns for the 2011 and 2012 years of income. Non-compliance with the tax law may attract fines and penalties. Tax obligations arising from such returns were not disclosed.

Management explained that there were tax obligations caused by insufficient cash inflows and all tax declaration had been made to URA. I was however not provided with documentary evidence to this effect. I have advised management to always furnish the Income Tax Returns as required by the tax laws to avoid imposition of penalties by URA.

Management explained that the accumulated arrears were due to inadequate cash inflows.

I have advised management to liaise with the respective Authorities to have the statutory deduction obligations matters addressed.

32.6 **Revenue Shortfall**

An analysis of budget against the actual revenue for the financial year under review revealed an aggregate revenue shortfall of UGX.605,135,721 (representing 34% of the expected revenue). This could have been a result of unrealistic budgeting or internal control weaknesses in revenue collection management. It was noted that for Hotel Sales alone where UGX.1,220,919,259 was expected, only UGX.531,583,844 (44%) was realized. Failure to collect budgeted revenue undermines the implementation of planned activities.

Meanwhile, trade and rent debtors increased from UGX 776.3 million to 917.9 million with nil realization of those outstanding from the previous year. The stadium did not have a clear policy on collection of debtors and no provision for bad debts was made in the financial statements.

Management explained that the stadium needed to be capitalized and facilities rehabilitated to be in a good state to attract business.
I have advised management to strengthen internal controls improved management of debtors and also put in place a robust system of revenue collection.

32.7 **Lack of an Internal Audit Function and Audit Committee**

Modern management practices require provisions for risk management and strengthened internal control structures under the Internal audit functions. On the contrary, it was noted that the Stadium’s structure that did not provide for the Internal Audit function. Relatedly, the Board did not have an Audit Committee.

In the circumstances, the stadium could be faced with internal controls weaknesses that expose its resources to risks of mismanagement and fraud.

Management explained that the stadium’s restructuring process provided for in the proposed structure and an advert for the position was placed in newspapers. However, the stadium was financially constrained to recruit and continued to use the services of the Ministry of Education and Sports (MOES) internal audit unit.

I have advised management to liaise with the Board and recruit an Internal Auditor as provided for in the new structure.

**INFORMATION AND COMMUNICATION SECTOR**

33.0 **NEW VISION PRINTING AND PUBLISHING COMPANY LIMITED - YEAR ENDED 30TH JUNE 2013**

33.1 **Appointment Letters for some Non Executive Directors**

An appointment letter to a board member underlines the importance of the commitment a new board member is entering into and makes explicit a wide range of expectations. It also provides a new director with other important information relating to his or her appointment. However, it was noted that the Company Secretary did not maintain a complete file for copies of all appointment letters of Non-Executive Board members except for one director.

Management explained that the weakness was in the filling system and promised cleaned
by ensuring that all letters are properly filed.

I have advised Management to maintain a complete and updated file for all appointment letters issued to Directors as a sign of adherence to the principles of good corporate governance.

33.2 **Board Charter**

A Board is responsible for the establishment of a corporate governance framework in the Company. A Board Charter sets out the role of the Board, role of senior management, responsibilities of the Board, structure and processes of the Board among others. It was however noted during the audit that the Board did not have an approved Board charter.

Without an approved Board Charter, the principles of good corporate governance may not be adhered to and therefore not setting the right tone at the top.

Management explained that a draft charter was already in place and would be presented to the Board for discussion in October 2013. I advised the Board to ensure that an approved Board charter is put in place to avoid conflicts that may arise in its relation with management.

33.3 **Lack of Implementation of the Business Continuity Plan**

It was noted that the business continuity policy framework which has been developed and adopted by management has not yet been fully implemented. As such, there is a risk in having New Vision’s operations severely crippled in case of the unavailability of the firm’s business critical functions including the printing press, broadcast infrastructure (Radio/TV), Computing Servers, etc.

Management explained that a concerted effort has been made to build redundancy in the key areas of succession planning, IT disaster recovery and business resumption in terms of both personnel and infrastructure. Spare components have been procured for some key hardware on a prioritized basis taking into account the high cost of these components.

I have however advised Management to procure cloud services that would provide immediate redundancy for its computing environment including servers and business
critical applications. Alternatively Management could subscribe to a co-location center and procure equipment that replicates its current computing environment offsite. Virtualization of the operating platforms could help in reducing the cost on hardware.

33.4 **Lack of Interface between Online revenue and accounting system**

The transfer of online revenue from the various systems that capture revenue streams to the Navision accounting system (CIO365, Bluebird, Ramcomm, Google Clicks, etc.) is done manually. As such there is a risk of having errors and/or omissions in the accounts that may go undetected. Furthermore, staff may be tempted to collude and misrepresent the revenue that has been generated off these systems.

Management explained that some systems implemented recently are not fully integrated, however the first step of automating these processes from 100% manual has been achieved. They further explained that the second phase was to integrate the systems.

I have advised Management to consider developing Interface Applications between these applications and NAV.

34.0 **UGANDA COMMUNICATIONS COMMISSION - YEAR ENDED 30TH JUNE, 2013**

34.1 **Governance Matters**

**Non-existence of a Board**

Section 9 (1) of the Uganda Communications Act 2013, “states that the commission shall be governed by a Board”. However, audit noted that the commission operated without a Board during the year under review.

Non-existence of an oversight body may compromise the achievement of the Commission’s strategic objectives. A case in point is the fact that internal audit reports directly to the Executive Director other than an audit committee of the Board.

Management in response acknowledged the observation and undertook to advise the appointing authority accordingly. I have advised management to take up the matter with the relevant authorities to have the Board in place.

**Absence of an Investment Policy**
Section 7.6 of the UCC Finance and Accounting Manual provides for investment of cash in any lawful instrument like fixed deposits, treasury bills or any other low risk investments. However, it was noted that whereas the Commission’s investment in property (Communications House) and short term deposits stood at UGX 31,096,000,000 and UGX 20,000,000,000 respectively, there was no proper policy to provide guidance on identification, appraisal and choice of investment options. I informed management that in the absence of an investment policy, there is a risk of investing funds in non-viable or less-profitable options.

Management in response stated that the Commission had developed an Asset Management Strategy to guide all acquisition, maintenance and disposal of fixed assets and that a draft policy awaits Board approval.

I advised management to expedite the process of having an investment policy.

34.2 Outstanding receivables

The trade and other receivables were reported in the Statement of Financial Position as UGX 25,287,271,497 down from UGX 25,373,755,277 (representing a 0.34% reduction) in the previous year. This is indicative of inadequate debtor management. In the circumstances, the Commission is exposed to risk of loss through bad debts.

Whereas management previously indicated that vigorous debt collection mechanisms had been undertaken, there was no proof to this effect. I have advised management to review the debt management practices with a view to instituting practical measures that will enable reduction of the debt portfolio.

34.3 Revenue Shortfall

The Commission anticipated to collect a sum of UGX 22,188,963,454 during the year under review. However, only UGX 2,702,560,489 was realized resulting into a shortfall of UGX 19,486,402,965.

I informed management that significant variations in revenue imply unrealistic budgeting and/or inadequate implementation of revenue collection strategies. Failure to collect the budgeted revenues constrains management in the implementation of planned activities.

Management attributed the shortfall majorly to non-release of the budgeted IDA Grants amounting to USD 6.3 million as result of failure to get a suitable service provider for a planned project. New bids were invited later.
I have advised management to endeavour to obtain a suitable service provider as required by IDA and to formulate realistic annual budgets in future.

34.4 **Delayed Implementation of Digital Migration Policy**

According to the Digital Migration policy, the migration process to digital broadcasting was planned to last about two and half years effective July 2009 and the national broadcasting digital signal coverage would be covering 50% of the population by 2010, 80% of the population by 2011 and close to 100% by 2013 at which stage the analogue signal would be switched off.

A review of the progress revealed that the entity was unable to complete the tasks despite a substantial investment of UGX.9,406,880,719 during the financial year.

In response, management explained that progress had been made with the first phase completed covering the area of greater Kampala. It was further indicated that the procurement process had been initiated for the next phase which is to cover 17 more sites at all UBC sites in the country.

I have advised management to review its implementation plan with a view to addressing the bottlenecks that caused failure to achieve the planned tasks.

35.0 **THE BROADCASTING COUNCIL - YEAR ENDED 30TH JUNE 2013**

35.1 **Debtors’ Management**

It was noted that outstanding debtors UGX.391,141,389 remained uncollected at the end of the year. There is a risk of loss of funds under debtors.

Management explained that following the merger of UCC and UBC, the UCC Finance department together with the Legal department has embarked on debt collection.

I await the outcome of this process.

36.0 **UGANDA INSTITUTE OF INFORMATION AND COMMUNICATIONS TECHNOLOGY - YEAR ENDED 30TH JUNE, 2013**

36.1 **Revenue Shortfall**

It was noted that management budgeted to collect UGX.3,902,100,000 from all revenue sources but actual collection amounted to UGX.1,915,816,774 causing a shortfall of
UGX.1,986,283,226 (51%). Under collection of the budgeted revenue constrains management in the implementation the Institute’s activities and consequently the achievement of its strategic objectives.

Management explained that the Institute’s revenue typically depended on student numbers and the non-realization of targeted numbers had a direct and adverse impact on revenue performance. Never the less, management had changed the approach of budgeting and applied other strategies like aggressive advertising of the Institute in order to increase student numbers to overcome the above challenges.

I have advised management to always formulate realistic budgets and also improve its revenue collection mechanisms.

36.2 Outstanding Debts

Included in the receivables of UGX.401,894,894 reported under Note 8, is a sum of UGX.225,959,536 attributed to school fees defaulters. The Institute lacked a credit policy to provide guidance on the management of debtors.

It was observed that the school fees debtors had accumulated over time, some with remote chance of recovery. In the circumstances, the Institute is exposed to a risk of loss through bad debts.

Management explained that the Governing Council had approved was in the process of formulating the credit policy. They also stated that the Academic Board had already approved the time the student should be allowed to remain on a programme. I await the outcome of the management’s undertaking.

36.3 Funds not accounted for

According to the Institutes’ Financial Regulations and Accounting Manual, all documents in support of a payment voucher must be fully supported and properly accounted for. However, it was noted that expenditure worth UGX.44,962,235 spent under various Institute programmes lacked appropriate supporting documentation. In the circumstances, it was not possible to confirm that the funds were properly utilised on the Institute’s activities.

I have advised management to ensure that the funds are accounted for and put in place
proper internal controls for management of advances.

36.4 **Lack of an Investment Policy**

Review of financial statements revealed that the institute earned UGX.18,750,000 in interest income from a fixed deposit investment of UGX.500 million in Stanbic Bank for a period of six months at a rate of 15% per year maturing on 20th September, 2013.

However, it was noted that UIICT did not have an investment policy to provide guidance on identification, appraisal, and selection of viable investment opportunities. There is a risk of loss of the Institute’s funds in unplanned investments.

Management undertook to formulate an investment policy so as to better position the Institute in future investment decisions. I await the outcome of this commitment by management.

36.5 **Poor Stores Management**

According to UIICT’s financial regulations and accounting manual, it is the responsibility of the store keeper to ensure that the stocks received are recorded correctly in the stores records. Despite having full time stores personnel, the following shortcomings were observed;

- The stores ledger cards were not updated,
- Items in the store were haphazardly arranged making their identification difficult,
- The store lacked adequate security. The door and windows were not burglar proofed thus susceptible to burglary. As a result, it was noted that on 23rd September, 2013, burglars broke into the stores and stole a number of items, including, reams of duplicating paper, a Sony camera and a computer with its accessories.

The current state of affairs further exposes the institute to a risk of pilferage from the stores.

Management attributed the weakness in stores management to inadequate space to allocate the store strategically and neatly. I have advised the Accounting Officer to ensure that the stores are properly managed.

37.0 **RURAL COMMUNICATION DEVELOPMENT FUND (RCDF) - YEAR ENDED 30TH JUNE, 2013**
37.1 Absence of a Board

Section 5 (1) of the Communications (Establishment and Management of the RCDF) Instrument, 2002, requires the establishment of a Board to be known as the Rural Communications Development Fund Board whose functions are stipulated in Sec. 7 (1) (a-j). On the contrary, it was noted that, RCDF operated without a Board during the year under review. I informed management that in the circumstances, the fund may lack the benefit of strategic direction in implementation of its activities.

Management acknowledged the state of affairs and undertook to liaise with the Appointing Authority to have the Board in place. I await the outcome of management’s commitment in this regard.

37.2 Funds not accounted for

Section 8 (i) of the UCC Financial and Accounting Manual requires payments made to have supporting documents. On the contrary, payments amounting to UGX 52,000,000 for implementation of ICT trainings lacked supporting documents.

In the circumstances, there is a risk that the funds were not utilized as intended. Besides, delayed accountability may lead to falsification of documents. I have advised management that in the absence of proper accountability, the funds are recoverable from the concerned parties.

37.3 Signatories to the Corporation Bank Accounts

It was established that current Executive Director (ED) who is the Accounting Officer is not a signatory to the Bank Accounts despite the fact that the Financial Manual provides for the ED to be a signatory together with other two Directors. Such limitations may lead to utilisation of resources without the consent of the Accounting Officer.

Management in response explained that the current signatories were appointed by the previous Board before its dissolution and new signatories would be appointed when a new Board is in place. I await the outcome of management’s commitment.
38.0 **UGANDA NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY (UNCST)**

38.1 **Irregular procurement of charcoal briquette machines-Euro 120,620**

UGX.250 million provided by MoFPED to pay the supplier of the charcoal briquette machine. Accordingly Council paid for acquisition of charcoal briquette machines and related consultancy services for Euros 120,620. However, it was noted that there were no procurement documents confirming that UNSCT had a contract with BOGMA and Rene-tech, the suppliers and consultants who were paid. It would appear the supplier was procured by NEC but payment made by UNCST. Requisite documents like contract from NEC, Solicitor General’s approval and amounts already paid under NEC were not provided for review.

Further, there were no delivery notes or inspection report of the machines procured. These machines may not have been delivered.

Management explained that this was a project passed on to UNCST from NEC and MoFPED after all the procurement processes and agreements were signed. UNCST just received the funds and passed it on to BOGMA on instructions by PS/ST MoFPED.

I advised management to trace supporting documents for this procurement and also explain as to whether the procurement was budgeted for and from which account.

38.2 **Car Hire for Integrated Intelligent Computer system project (IICSP)**

It was noted that the Principal Investigator (PI) for the IICSP project hired a car from a car rental company throughout the year and a sum of UGX.54,900,000. On average, the monthly hire costs approximated to UGX.4,500,000. The action appeared not cost effective compared to procurement of a car. The following were also noted:

- There were no procurement documents to support the car hire.
- There were no project activity reports associated with the car movements and no car movement logbook or any other record to support the need for the hire.
- The hire charges were being paid regardless of whether the car was being used or not.

In the above circumstances, I was unable to confirm whether the hired car was used
exclusively for the project purposes and whether hire services were regularly procured.

Management explained that due to partial releases of funds, it was not possible to purchase a car for the Project and the project was involved in feasibility studies all over the country, hence the extensive use of a hired car.

I advised management to consider purchasing instead of hiring in such circumstances.

38.3 **Late submission of financial statements**
According to the Uganda National Council for Science and Technology Act, the annual statement of account of the Council shall be audited within four months after the end of each financial year by the Auditor General or an auditor appointed by him or her. Contrary to the Act, the draft financial statements were submitted for audit on 25th February, 2014, a period of over seven months after the end of the financial year.

Late submission of accounts is contrary to regulations and also causes delays in audit completion.

Management explained that the delay was caused by Accounts Personnel who were busy with the closure procedures of the Millennium Science Initiative (MSI) Project which ended on June 30, 2013.

I advised management to always ensure timely submission of financial statements as required by regulations.

38.4 **Failure to implement some statutory requirements**
A review of the Uganda National Science and Technology (UNCST) Act, Cap 209, revealed that a number of functions, duties and obligations stipulated in the Act are either not being carried out, or have not been met as observed below:

38.4.1 **Lack of a substantive UNCST Governing Council and Executive Committee**
As noted in my previous report to Parliament, the term/tenure of the governing council expired in 2006 and UNCST has been operating without a Governing Council and an Executive Committee. Although the Accounting Officer had indicated that the process of appointing a new board had been initiated; the board was not in place at the time of writing this report. The board has the responsibility of endorsing the organization's
strategy, developing directional policy, supervising senior executives and ensuring accountability of the organization to its different stakeholders. This implies that these important responsibilities are lacking in the entity.

Management explained that there is need to amend the above law to trim the sizes of the Board membership and sub-committees which would be economically viable to manage. The current law provides for 40 members of the board alone and 8 committees of 14 members each.

I advised management seek the Solicitor General’s legal opinion regarding the size of the board and committees and the guidance of MoFPED to expedite the process of putting the board in place.

38.4.2 Failure to form Specialized Committees

Section 15 of the UNSCT Act CAP 209 stipulates that there shall be specialized committees which shall include;

- A physical science committee;
- An industrial science committee (for engineering and technology);
- A medical sciences committee (for human and veterinary medicines);
- An agricultural sciences committee;
- A natural sciences committee (for bio- and geo-science);
- A social sciences and humanities committee; and such other committees as the council may deem necessary.

However, it was noted that the specialized committees were never formed. Instead Council formed committees to head individual projects which do not tally with the above identified specialized areas.

Management explained that the committees to head individual projects could not wait for the board and required members in specialized areas e.g. National Aids Research Committee (NARC) and National Bio-safety Committee (NBC).

I advised management to liaise with the relevant authorities to enable formation of specialized committees as provided for in the Act.

38.4.3 National Science and Technology Fund
Section 21(3) of the UNCST Act CAP 209 provides for the establishment of a fund to be known as the National Science and Technology Fund. Such Fund should be administered by the council for purposes of promoting research. However, it was noted that the Fund has not yet been established, instead Council relies on donor projects like MSI (closed on 30th June, 2013) to fund research. Reliance on donors to fund research poses a risk inability to continue with research activities incase this source pulls out.

The objective of promoting research by Ugandan Scientists may not be achieved unless the fund is established as provided for by the Act. Management explained that UNCST has been requesting MoFPED to provide funds to establish a permanent fund without success to date.

I urged management to continue pursuing the possibility of establishing the research fund by liaising with the MoFPED and other stakeholders.

38.5 Irregularities in accountability of funds

During the review, irregularities in accounting for funds worth UGX.4,520,000 were noted as per summary in the table below:

<table>
<thead>
<tr>
<th>Irregularities of Expenditure</th>
<th>Amount</th>
<th>Summary Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Un vouched expenditure</td>
<td>3,100,000</td>
<td>Payment vouchers not presented for audit examination.</td>
</tr>
<tr>
<td>Doubtful fuel and motor vehicle</td>
<td>1,420,000</td>
<td>Copies of vehicle movement log books not availed. No fuel and parking receipts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No activity reports sighted relating to the expenditure</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>4,520,000</td>
<td></td>
</tr>
</tbody>
</table>

In the circumstances, I could not confirm whether the funds in question were utilized for the intended purposes.

I advised management to trace the missing payment vouchers and ensure full accountability for the above expenditures or institute recovery measures from the beneficiaries.

38.6 Support to MSI

38.6.1 Irregularities in accountability of funds
The following irregularities in accountabilities were noted as summarized in the table below:

<table>
<thead>
<tr>
<th>Irregularities of Expenditure</th>
<th>Amount</th>
<th>Summary Remarks</th>
</tr>
</thead>
</table>
| Doubtful expenditure          | 2,220,000 | • No acknowledgement of receipt of funds/receipts  
|                               |         | • No invoices,  
|                               |         | • No auxiliary expenditure e.g. fuel and venue costs  
|                               |         | • No attendance register for workshops (allowances).  
|                               |         | • No boarding passes, invitation for courses, back to office reports (travel)                                                                                 |
| Un vouched expenditure        | 1,450,000 | • No payment vouchers were presented for audit examination.                                                                                             |
| Doubtful procurements         | 4,373,440 | • No contracts attached,  
|                               |         | • No c.c minutes attached, awarding contract, no award letter and acceptance of award  
|                               |         | • No delivery notes                                                                                                                                     |
| Total                         | 8,043,440 |                                                                                                                                                  |

In the circumstances, I could not confirm that the funds in question were utilized for the intended purposes. I advised management to ensure that the above expenditures are fully accounted for, otherwise the funds are recoverable.

**38.6.2 Irregularities in accountability of funds in other donor funded projects**

UNSCOT manages a number of donor funded projects that are supported by the Government of Uganda. However, the following irregularities were noted in regard to the expenditure in each of the projects examined as summarized in the table below:

<table>
<thead>
<tr>
<th>Issues</th>
<th>Project</th>
<th>USD Amount</th>
<th>UGX Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doubtful Expenditures</td>
<td>CAASNET</td>
<td>1,980</td>
<td>Nil</td>
</tr>
<tr>
<td>1st Africa</td>
<td></td>
<td>2,800</td>
<td>7,922,900</td>
</tr>
<tr>
<td>VICRES</td>
<td></td>
<td>9,500</td>
<td>Nil</td>
</tr>
<tr>
<td>OFAB</td>
<td></td>
<td>3,522</td>
<td>Nil</td>
</tr>
<tr>
<td>Un-accounted for funds</td>
<td>OFAB</td>
<td>1,048</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>18,850</td>
<td>7,922,900</td>
</tr>
</tbody>
</table>

In the circumstances, I could not confirm whether the funds in question were utilized for the intended purposes. I advised management to follow up the accountabilities or institute recovery measures from the beneficiaries.

**38.7 Budget performance**
The annual budget performance reports for the year 2012/13 together with the Ministerial Policy Statements for 2013/14 were reviewed and the following noted:

### 38.7.1 Outputs with poor performance

It was noted that some activities performed far below the 50% mark by the year-end as indicated in the table below:

<table>
<thead>
<tr>
<th>Planned Outputs 2012/13</th>
<th>Actual Outputs Achieved</th>
<th>% Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 500 new research projects approved and cleared for implementation</td>
<td>Only 104 new research projects approved and cleared for implementation</td>
<td>20.8%</td>
</tr>
<tr>
<td>100 research sites monitored for compliance with ethical standards and bio-safety regulations</td>
<td>Only 15 research sites monitored</td>
<td>15%</td>
</tr>
<tr>
<td>250 scientists receive intellectual property management training and support services.</td>
<td>Only 10 received the training</td>
<td>4%</td>
</tr>
</tbody>
</table>

There is a risk that set objective may not be achieved in a timely manner. Management explained that this was caused by late and insufficient releases. I advised management to always ensure timely achievement of planned activities by liaising with MoFPED for timely releases.

### 38.8 Support to other scientists projects- assets

It is noted that projects which closed and have no running activity, still posses UNCST assets; Oluwoko project still has 2 UNCST motor vehicles among other assets, Frevasema project is also still clinging on 2 motor vehicles and other assets. Despite projects’ submission of terminal reports, no efforts have been taken by UNCST to recover the said assets. The risk is that such assets which are legally owned by UNCST may be misused.

Management explained that communications were made to the concerned projects to handle over to UNCST all project assets. I await the outcome.

### 38.8.1 Land valuation

UNCST’s value the two plots at Mengo and Ntinda have appreciated over the period but the valuation has not been carried out to be reflected at fair value in the financial
statements. In accordance with IAS 16, land generally should be valued at an interval of 3-5 years depending on the market turbulences to fairly state it in the balance sheet. This was not done. It was explained that management was in the process of sourcing the services of a Valuer. I advised management to expedite the valuation process.

39.0 UGANDA NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY MILLENNIUM SCIENCE INITIATIVE (MSI) PROJECT IDA CREDIT NUMBER 4174 – UG 30TH JUNE 2013

39.1 Compliance With Financing Agreement Provisions And GoU Financial Regulations

A review was carried out on the project compliance with the credit agreement provisions and GoU financial regulations and it was noted that the project complied in all material respects with the provisions in the agreement and applied GoU regulations except in the following matters:

39.1.1 Non-payment of retention fees

During the year, management undertook contracts with two local construction companies to renovate Community Based Education Services sites in the Northern and Western region. According to the final completion certificates, retention fees worth UGX.9,894,449 was due at the end of October 2013, yet the project had closed three (3) months earlier.

The creditors are likely to sue government if the retention fees are not cleared.

Management explained that Ministry of Finance had promised to clear the outstanding retention fees as a counterpart contribution by end of March 2014. This action is awaited.

39.1.2 Ownership of project vehicles

Section 451 of the TAI provides that at the closure of a project and on submission of an interim completion report, the primary responsibility of asset and liability management will be taken over by the accounting officer who will determine the subsequent beneficiaries.
In line with the above regulation, management resolved to transfer project vehicles to implementing Universities. Although the transfer of the vehicles was effected, management has not officially transferred ownership of the vehicles. At the time of audit, the vehicles were still registered in the names of UNSCT. Besides, the assets register had not been updated to reflect the transfers.

Management explained that the transfer processes was in final stages.

I advised management to expedite the process and also adjust the assets register accordingly.

### 39.2 Status of Project Implementation

During the year under review a total of UGX.6,820,878,442 was disbursed to various grantees in the Universities implementing the project. Field inspections were conducted on selected sites to review of the status of project implementation and the following were noted:

#### 39.2.1 Strengthening and upgrading the Undergraduate Degree program in Pharmaceutical Sciences at MUST

a) **Ineligible workshop expenditure**

Expenditure amounting to UGX.21,280,400 was incurred on a training workshop for MSI pharmaceutical sciences project at hotel Brovad in Masaka. Included is UGX.12,605,400 which was used to pay for accommodation for participants yet the same participants had been paid per diem in respect of the same workshop. This is a double payment which should be recovered.

b) **Irregular renovation bill**

Expenditure amounting to UGX.36,838,036 was incurred in respect of conversion of a lecture room into an e-learning facility. A review of the bill of quantities against which the actual works were done revealed that some of the items appeared inflated. For example item (d) on the bills of quantities in respect of “make good of damaged areas” was priced at UGX.6,000,000 without indicating the actual damages to be made good.

In addition, item 2(b) in respect of MDF board was quoted at UGX.10,440,000 for a
surface area of 174 square meters which was greater than the 61 square meters floor area on which it was fitted.

I advised management to investigate the above anomalies with a view of recovering any excess payments from the contractor.

c) **Un-Supported fuel expenses**

A review of the fuel expenses revealed that a sum of UGX.6,000,000 was paid from the project account and deposited with a petrol station in respect of project activities.

However, it was noted that the fuel orders and statements availed for review were not backed up with activity programmes. Due to the limitation, I was unable to confirm that the fuel was actually spent on project activities.

I advised management to always account for the project activities within the time stipulated by financial regulations.

39.3 **Kachwekano Zonal Agricultural Research and Development Institute (KAZARDI)**

**Un-utilized fridges**

Management of the project under KAZARDI procured a number of equipment including two fridges. At the time of inspection in December, 2013, the two fridges were outside the laboratory. Keeping the fridges outside the designated place exposes them to risks of theft or damage by the harsh weather conditions since they are considered delicate items. Management explained that the entrance to the laboratory was too narrow for the big fridges to pass and are in the process of breaking the doors.

I urged management to expedite the action to avoid damage to the equipment.

39.3.1 **Gulu University Inspections**

a) **Un-engraved furniture**

Engraving assets is aimed at giving identity, facilitate asset tracking, recording and referencing in the assets register. Physical verification of assets at Gulu University revealed that some of the furniture procured by UNCST and delivered to PI had not been
engraved as shown in the table below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Desk</td>
<td>8</td>
</tr>
<tr>
<td>Office Chairs</td>
<td>8</td>
</tr>
<tr>
<td>Class room chairs</td>
<td>200</td>
</tr>
<tr>
<td>Class room computer Tables</td>
<td>25</td>
</tr>
<tr>
<td>Computer chairs</td>
<td>50</td>
</tr>
<tr>
<td>Laboratory Stools</td>
<td>50</td>
</tr>
</tbody>
</table>

Management explained that the process of engraving the furniture is on-going.

I urged management to ensure that the process is concluded without delay.

b) **Un-installed equipment**

In my prior year report, I observed that workshop tools and equipment had not been installed. During the period under review, another set of equipment were delivered on 4th June, 2013. However, it was noted that they are non-operational because they have remained uninstalled despite being delivered six months prior to the inspection in December, 2013. The delays in installation do not only put the equipment at risk of being damaged but also hinders the timely achievement of project’s intended objectives.

Management explained that the equipment supplier had been contacted and promised to install them by end of January 2014. The action is awaited.

39.4 **General Standard Of Accounting And Internal Control**

A review of the following areas was carried out:-

- Accounting system and policies.
- Book keeping.
- Management and control of both bank and cash accounts.
- Purchases and payments.
- Fixed assets management.

It was noted that management’s control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of, and accountability for all project except in the following instances;

39.4.1 **Stale Cheques**

A review of the project cashbook and bank statements revealed that (3) cheques worth
UGX.72,969,576 had become stale. These cheques had been posted in the cash book, but had not been cashed through the bank. Details in the table below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Cheque</th>
<th>Payment Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/6/2012</td>
<td>3273</td>
<td>Honoraria for Presenters, discussants, Respondents NSW 2012.</td>
<td>22,150,000</td>
</tr>
<tr>
<td>12/3/2012</td>
<td>3490</td>
<td>Publicity Materials UNCST.</td>
<td>27,151,045</td>
</tr>
<tr>
<td>3/11/2012</td>
<td>3616</td>
<td>Internet broadband UNCST office Jan-Dec 2012.</td>
<td>23,668,531</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>72,969,576</td>
</tr>
</tbody>
</table>

These entries were not reversed in the cashbook contrary to the Treasury Accounting Instructions 345 (i). The cashbook closing balance and the related expenditure items in the financial statements are misstated to this extent.

I advised management to reverse the cashbook postings and adjust the financial statement balances accordingly.

**39.4.2 Over expenditure on motor vehicles repair and maintenance**

A review of the expenditure on motor vehicle repairs, service and maintenance revealed that whereas a sum of UGX.38,000,000 had been budgeted, UGX.113,159,094 was actually spent causing an over expenditure of UGX.75,159,094 (66.42%). These funds were reallocated from various project items to cater for this expenditure without authority from the donors and Ministry of Finance, Planning and Economic Development.

Management explained that the increase in motor vehicle maintenance was due to the increase in the motor vehicle fleet and aging of vehicles.

I advised management to always seek authority to reallocate before such expenditures are incurred.

**39.4.3 Lack of motor vehicles pre and post repair reports**

A review of a sample of payments for motor vehicles repairs and service revealed that a sum of UGX.113,159,094 was paid to Wamuco Motors Limited for motor vehicle repairs and spares during the year, but this expenditure was not properly supported. It was established that there were no pre repairs reports to confirm the need for repairs which would then be matched against the actual repairs performed thereafter. The post repair
reports confirming actual occurrence were also lacking, hence the status of the vehicles after repairs could not be ascertained.

Management is advised that in future, a mechanism to ensure that motor vehicles due for repairs are inspected and after repairs, inspections are done to confirm occurrence is instituted.

40.0 UGANDA BROADCASTING CORPORATION (UBC) - YEAR 30TH JUNE 2013

40.1 Valuation of Property and Equipment

The Corporation’s fixed assets (property and equipment) are reflected as UGX.45,677,407,000 in the statement of financial position. A review of the supporting schedules in accordance with International Accounting Standards revealed the following:

- No revaluation of Property and Equipment was undertaken contrary to IAS 16 which requires regular revaluation of assets. Failure to revalue contravened the applicable Accounting Standards. I was unable to confirm whether the property and equipment disclosed in the financial statements are stated at fair value.
- The Corporation did not maintain a fixed assets register during the year contrary to chapter 16.5 of UBC Finance and Accounting Manual to enable me track the Corporation’s assets. It was also noted that the general ledger record for the non-current assets and documents relating to title of ownership of the stated assets were unavailable.
- The Corporation had leased land to third parties, however contrary to IPSAS 13 which requires the leased assets to be recognized as receivables in the balance sheet, the amounts were recognized as fixed assets.

I was therefore not able to determine whether Assets of the Corporation are fairly reflected in the statement of financial position, and whether the assets are owned as stated.

Management explained that a revaluation process was on-going except that by the time of audit, the Ministry of Lands had not set up the team. Management further explained that asset verification was previously done and is being updated.

I informed management that the asset verification report previously done was a mere list of assets and not a fixed assets register which records asset type, serial/asset number,
cost, date of acquisition and status. I advised management to expedite the revaluation process and have an adequate asset register in place.

**40.2 Unsupported Trade and other payables**

It was observed that the Corporation owes a sum of UGX.11,331,111,000. Included are trade creditors UGX.5,140,075,000 and other creditors UGX.6,191,036,000. This years trade debtors increased by 9% from the previous financial year’s position. It was however, noted that the payables were not supported with ledgers, a schedule source documents like invoices, contracts completion certificates and agreements to justify their existence and completeness. I was therefore unable to confirm whether the payables are stated fairly in the financial statements. Accumulation of creditors poses a risk of litigation which will consequently lead to losses.

Management explained that payables accumulation was due to unexpected cash shortfalls after entering in contractual obligations.

I advised management to ensure that a payables ledger is maintained and all documents relating to payables are properly kept and filed for future reference.

**40.3 Unsupported Trade and other receivables**

It was observed that there was neither a debt management policy nor a bad debts management manual in place contrary to the provision of the Corporation’s Finance and Accounting Manual. Note 9 of the financial statements on trade and other receivables disclosed UGX.3,333,052,000. This figure did not reconcile with the ageing analysis which disclosed receivable amount of UGX.3,459,968,000. Furthermore there was no ledgers maintained and a schedule breaking down the receivable. Without ledgers and supporting schedules, I was unable to confirm the correctness of the receivables’ position. Lack of a proper debt management policy may result into credit and liquidity risks.

As noted in my previous reports from the sale of land worth UGX.400,000,000 was not collected from the buyer two years after the sale. This amount remains unaccounted for.

Management explained that a debt management policy will be drafted and presented to the board as soon as it is constituted. I await the outcome of management action.
40.4 **Improper disclosure of Cash and Cash Equivalents**

One of the Corporation accounts revealed disparities between the reported balances and cashbook balances as at 30th June, 2013. The bank reconciliation statement provided was not properly presented. It presented a negative cashbook balance (UGX.1,189,012,198) which was rejected by the Accounting Officer.

I was therefore unable to confirm the accuracy of the Cash and Cash equivalent stated in the Statement of Financial Position.

I advised management to properly reconcile the cash book bank balances with the bank statement balances and ensure that the correct cash and cash equivalent balances are disclosed in the financial statements.

40.5 **Foreign currency translation gains**

The Corporation operates a foreign currency account in Dollars with Stanbic Bank. Consequently some receipts and payments were denominated in dollars. It was noted that the corporation made foreign exchange gains of UGX.198,773,000 during the year but no ledgers or schedules were availed to confirm the computations. I was therefore unable to confirm whether the foreign exchange gains are fairly stated.

I advised management to ensure that all documents relating to foreign exchange gains/losses are properly kept and filed for future reference.

40.6 **Non-disclosure of probable legal refund**

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets states that a provision shall be recognized when an entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

A review of entity documentation revealed that the Corporation received UGX.11.5 billion in the year 2010/2011 from a company for sale of land on Farady road, Bugolobi. In a drawn out legal battle, UBC repossessed the land and as a result the company appealed
against the High court judgment and the matter is before the Court of Appeal awaiting judgment. Management did not disclose the contingency in the final accounts. As a result the accounts are not adequately disclosing probable liabilities.

Management explained that as per the ruling of the High Court, UBC was not required to make any refund. It is likely that the Supreme Court will come up with a similar ruling.

I advised management to make a disclosure in the final accounts irrespective of the outcome of the Supreme Court.

40.7 Governance - Absence of Board/Directors and Senior Management

As noted in the previous year report, the entire Board membership of UBC was suspended by the line Minister on account of financial impropriety and the case was still being investigated by CIID and Anti-Corruption Court. In the absence of the Board, His Excellency the President appointed the Permanent Secretary Office of the Prime Minister to act as a caretaker. Furthermore, the current Managing Director, Human Resource Manager, Marketing Manager, some sectional heads and a number of other staff are in acting capacity due to absence of the Board for substantive appointments.

Because of lack of a Board, the following have not been undertaken:

- There is no proper directed corporate oversight over the performance an operation of the Corporation.
- All policies, procedures and manuals for example; human resource manual, IT policy, salary structure, fraud policy and others are in draft form.
- No approvals on investments (for funds not required for immediate use) have been undertaken. For example, the Digital Migration Project is hanging.

Management explained that according to the line Minister, consultations were underway by the relevant authorities to appoint a new board. I await the outcome of management efforts.

40.8 Satellite Services

UBC has historically been procuring satellite services for its transmission from M/s Intelsat Global Sales and Marketing Ltd based in the United Kingdom with a monthly transponder service fee of US $ 31,500. Previously, this amount was catered for by Ministry of
Finance, Planning and Economic Development (MoFPED) on behalf of the former UTV before incorporation of the Corporation in 2005. UBC consequently continued with the service provider and all outstanding dues were inherited by UBC. Review of the payments revealed several issues as outlined below:

- **Outstanding dues:**
  It was noted that UBC had outstanding dues of US $ 164,948 as per last account statement of 31st January 2013. This amount tended to oscillate around the same range for the whole year as UBC was only able to settle incurred monthly bills due to limited funds availability. In the circumstances the Corporation has on several occasions been threatened with disconnection.

- **High transponder service charges:**
  It was noted that UBC was tied down to the provider due to the debt owed but several firms worldwide are offering the same services at favorably low monthly charges in the range of US $ 20,000. The Corporation was thus losing a substantial amount of funds due to the un-competitive prices offered by the supplier.

  The Corporation faces a risk of disconnection which would fail its core objective. Furthermore, the high charges paid for satellite services compared to other service providers globally lead to wasteful expenditure.

  Management explained that the matter was drawn to the attention of the Minister after sourcing a foreign firm which was offering the same service at US $ 17,000.

  I await the outcome of management implementation.

40.9 **Statutory deductions**

40.9.1 **Non-remittance of PAYE taxes –**

  UGX.662,917,185 was deducted as Pay As You Earn (PAYE), however, the deductions were not remitted to Uganda Revenue Authority. In a related transaction, UGX.36,941,034 was withheld from gratuity payments to staff at the end of their contract periods but these too were not remitted to URA.

  Government taxes are likely to be diverted to pay for other Corporation financial obligations. Furthermore, UBC is exposed to penalties and fines from URA under the
40.9.2 Non-remittance of 15% NSSF deductions

It was noted that 5% staff contributions and 10% Employer’s contributions from staff salaries worth UGX.523,781,544 was not remitted to NSSF. Failure to remit NSSF contributions may result into diversion of the funds to other use and risks of deprivation of retirement benefits when employees retire.

40.9.3 Non-deduction and non-remittance of WHT from local suppliers

A total of UGX.17,889,985 was deducted and withheld from local suppliers as required by the Income Tax Act. However, there is no evidence that these deductions were received by Uganda Revenue Authority as there were no acknowledgement receipts for the remittances. Furthermore, withholding tax due from local suppliers to the tune of UGX.2,915,002 was not deducted contrary to the Income Tax Act.

There is a risk that the retained deductions could be diverted. Non-remittance of taxes and the NSSF deductions is a violation of the Income Tax and the NSSF laws which may lead to fines and penalties.

Management explained that failure to remit the statutory deductions was due to cash flow limitations given the fact that UBC’s mandate had expanded greatly without a proportionate increase in the revenue sources and Government’s inability to adequately fund the Corporation’s development expenditure budget.

I advised Management to ensure strict adherence with the provisions under the Income Tax Act and NSSF Act. Deductions should be remitted promptly and acknowledgement receipts obtained and filed for future reference.

40.10 Value Added Tax (VAT) - Un-remitted VAT

It was observed that while invoicing UBC services to clients, the Corporation collected 18% VAT on receipts. However, the VAT collected with the exception of Mega FM collections was not remitted to URA. Because there were no revenue ledgers, I was unable to ascertain the exact VAT outstanding but it is estimated at UGX.1,639,359,457 using revenue collections earned minus Mega FM revenue.
This is a violation of the VAT Act which may lead to fines and penalties that may include garnishing UBC bank accounts. There is a risk that the retained VAT funds could be misappropriated.

Management explained that an MOU was signed with URA to pay in installments which were later extended due to shortages of funds.

I advised management to ensure that VAT collected is promptly remitted by the due dates.

40.11 Salary advances

Paragraph 6.3 (11) of the UBC Finance and Accounting regulations manual 2006 requires the entity to maintain Debtors sub-ledgers, Salary advances inclusive.

Contrary to the regulation, the Corporation had outstanding salary advances amounting to UGX.7,488,000 at the end of the financial year. I was unable to confirm this balance as the advances ledgers were not availed. Furthermore the outstanding salary advances to staff for the previous year were UGX.19,123,000. However, I was not able to verify advances recovered during the year, or which advances were irrecoverable as a result of staff exit and the amount of salary advances that were made before recovery of the previous ones.

Failure to adhere to the Human Resource regulations resulted into Corporation funds being tied up into non-interest bearing salary advances, thereby impairing the implementation of other activities. In addition, untimely recovery of salary advances may result into loss of Corporation funds when the beneficiary staff leave or die.

Although management explained that by the end of the financial year all salary advances were cleared and the ledgers are available, however by the time of writing this report this advances could not be confirmed.

I advised management to maintain advances ledgers and recover the outstanding salary advances.

40.12 Review of Internal Audit reports

A review of internal audit reports revealed issues that had not been resolved at the time
of the report.

(a) **Sale of Television and Radio airtime**

Uganda Broadcasting Corporation gets most of its revenue from sale of TV and Radio airtime as well as rent of tower space. The rental revenue is not subject to fluctuation as much as the TV and Radio income which varies according to duration, timing and type as governed by UBC rate cards in force. When an advertiser accepts the terms of sale for a transaction, an accountable document known as a Time Order is filled in quadruplicate by the sales person and signed by the advertiser. The completed Time Order is thereafter taken to the Sales Manager and Marketing Manager for authorization.

After approval and authorization, the Time Order is submitted to the Internal Auditor to ascertain among others:

a) Compliance with the rate card;
b) Arithmetical accuracy of amounts;
c) Terms of payment;
d) Safeguards against bad debts;
e) Type of transaction, that is; announcement, sponsorship and promotion.

After verification of the Time Order by the Internal Auditor, the sales person takes it to the sales administrator to log the transaction in the daily commercial transmission schedule. The daily commercial transmission schedule gives details of the client’s name, timing, duration, start date and end date of the advertisement. Ultimately, a copy of the time order is taken to accounts office for invoicing the client.

Review of the above system revealed the following:

(i) **Incomplete Time Orders**

Majority of the sales executives do not provide all the required information on time orders, for example; payment mode and type of transaction thus making verification of the business transactions difficult.

(ii) **Arbitrary Discounts by sales executives**

Sales executives offer airtime to clients at lower rates. These discounts given off the rate card are arbitrary so it is not possible to ascertain whether they are within reasonable bounds or how much revenue the Corporation is losing from the unwarranted discounts.
(iii) **Lack of a Discount and Credit Policy**

It was noted that there is no definitive discount and credit sales policy which renders the revenue collection subject to manipulation by sales executives.

(iv) **Lack of Monitoring of Airwaves**

It was noted that there is no monitoring of UBC airwaves to confirm that what is aired corresponds with the revenue received/billed. Without this, the corporation cannot rule out transactions being aired without billings.

(v) **Lack of a Swap Register**

TV airtime is sometimes noted on a swap basis but there is no swap register or other mechanism in place that records and reconciles swaps on a regular basis. Without this register I could not rule out loss of revenue.

(vi) **Submission of Time Orders for invoicing Advertisers**

In some instances, Time Orders are not submitted to accounts office for invoicing. There is a high risk of Sales Persons denying the corporation revenue.

(vii) **Indication of Value Added Tax on Time Orders**

Most of the Sales Persons did not indicate the VAT payable by advertisers on the Time Orders hence the amount was converted into airtime which resulted into a loss to UBC.

(viii) **Daily Commercial Transmission Schedules by Radio Stations**

Some Radio Stations prepare commercial transmission schedules intermittently and some do not at all hence the risk of airing unapproved, unauthorized and unverified promotional materials that make UBC lose revenue.

The above weaknesses lead to loss of revenue which negatively affects the Corporation’s cash flows.

Management explained that the identified flaws regarding time orders were being rectified and as the media industry is so competitive, at times they are forced to lower their sales rates to match private media houses. Management further explained that a draft credit policy was in place awaiting board approval and that swap registers were being developed.

I advised management to develop and implement a manual that prescribes procedures for handling sales for its staff, develop a credit and discount policy, consider procurement of software that will aid the monitoring of UBC airwaves, ensure all sales persons indicate the VAT charged to all advertisers on time orders. Furthermore, as an immediate control
measure of invoicing advertisers, the Sales Administrator should be given partial rights to the pastel accounting system so that he/she updates time orders electronically.

(b) **UBC non-current assets at up-country stations**

Inspection of the various sites revealed several issues as indicated below:

<table>
<thead>
<tr>
<th>Transmission site/District</th>
<th>Engraved non-current assets</th>
<th>Record of equipment at site</th>
<th>Transmitter status</th>
<th>infrastructure</th>
<th>Land status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ombachi - Arua</td>
<td>x</td>
<td>x</td>
<td>Faulty since august 2012</td>
<td>Power house, staff quarters, transmission house and main gate in poor condition</td>
<td>Land not titled</td>
</tr>
<tr>
<td>Gilgil-Arua</td>
<td>Ok</td>
<td>Ok</td>
<td>Obsolete due to technological advances</td>
<td>Total neglect</td>
<td>Land not titled</td>
</tr>
<tr>
<td>Odokomit-Lira</td>
<td>x</td>
<td>x</td>
<td>Faulty for a long time and no UBC signal</td>
<td>Transmission house roof leaks, no security lights</td>
<td>Land not titled and not fenced</td>
</tr>
<tr>
<td>Moru-Gulu</td>
<td>Ok</td>
<td>x</td>
<td>Ok</td>
<td>Collapsed mast and UBC rents UTL mast</td>
<td>Land not titled, surveyed and fenced</td>
</tr>
<tr>
<td>Bobi-Gulu</td>
<td>x</td>
<td>x</td>
<td>Non-operational site due to war</td>
<td>Three buildings without roofs.</td>
<td>Land not titled and not fenced</td>
</tr>
<tr>
<td>Erra-Moyo</td>
<td></td>
<td></td>
<td>Radio transmission equipment received from ministry of health 3 years ago but installation is not yet done due to lack of funds.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kasemer-Moroto</td>
<td></td>
<td></td>
<td>As above</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Namatala-Mbale</td>
<td></td>
<td></td>
<td>Obsolete</td>
<td>Tower was stolen, old building</td>
<td>Partially fenced land</td>
</tr>
<tr>
<td>Buwalasi-Sironko</td>
<td>x</td>
<td>x</td>
<td>Ok</td>
<td>Leaking roof and collapsed ceiling, absence of aviation tower lights</td>
<td>Land not titled, surveyed and fenced</td>
</tr>
<tr>
<td>Butebo-Pallisa</td>
<td>x</td>
<td>Ok</td>
<td>Ok</td>
<td>Dilapidated buildings, non-functional aviation tower lights, non-functional generator</td>
<td>Land not titled</td>
</tr>
<tr>
<td>Wanyange-Jinja</td>
<td>x</td>
<td>Ok</td>
<td>Ok</td>
<td>Ok</td>
<td>Land not titled and surveyed</td>
</tr>
</tbody>
</table>
Management risks loss of Corporation land and assets to both staff and encroachers. Furthermore, non-maintenance of Corporation broadcasting assets leads to loss of business as clients may seek alternatives and the overall objective of broadcasting for national development may be hampered.

I advised management to ensure all assets are engraved, records of equipment kept, infrastructure maintained, land surveyed and land titles obtained.

### 40.13 Hire of staff who have reached retirement age

Section 12 (1) of the Pensions Act requires that an officer shall retire on attaining the age of sixty years. It was observed that 17 staff members were still in service of the Corporation after reaching the mandatory retirement age. Fourteen of the staff had contracts which expired between 2009 and 2013 while three staff had contracts due to expire in June, August and October 2014.

Productivity deteriorates on reaching retirement age, thus value addition to the corporation may be low.

Management explained that some of these staff had specialist skills for example; AM and SW radio band technicians.

I advised management to comply with the Act and recruit young staff with requisite skills and have a succession plan in place.

### 40.14 Budget Performance

Review of the budget performance for the year under review revealed that some targets were not achieved as per details below:
(i) **Revenue**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budget amount (A)</th>
<th>Actual (B)</th>
<th>Variance (A-B)</th>
<th>Audit remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBC Red Channel</td>
<td>509,750,000</td>
<td>198,750,000</td>
<td>310,250,000</td>
<td>Under collected by 39% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>UBC West Nile</td>
<td>77,000,000</td>
<td>1,710,000</td>
<td>75,290,000</td>
<td>Under collected by 97% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Star FM</td>
<td>1,220,000,000</td>
<td>625,481,000</td>
<td>594,519,000</td>
<td>Under collected by 49% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Magic FM</td>
<td>106,000,000</td>
<td>36,047,000</td>
<td>69,953,000</td>
<td>Under collected by 66% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Buruli FM</td>
<td>77,000,000</td>
<td>69,420,000</td>
<td>7,580,000</td>
<td>Under collected by 10% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Bundibugyo</td>
<td>77,000,000</td>
<td>54,802,000</td>
<td>22,198,000</td>
<td>Under collected by 28% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Star TV</td>
<td>1,081,000,000</td>
<td>885,630,000</td>
<td>132,370,000</td>
<td>Under collected by 13% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>UBC TV</td>
<td>6,100,000,000</td>
<td>4,361,413,000</td>
<td>1,738,587,000</td>
<td>Under collected by 29% probably as a result of poor marketing strategy.</td>
</tr>
<tr>
<td>Mega FM</td>
<td>1,192,000,000</td>
<td>1,103,838,000</td>
<td>88,162,000</td>
<td>Under collected by 7% probably due to budget cuts that affected all MDAs.</td>
</tr>
<tr>
<td>Government capital Grants</td>
<td>168,906,000,000</td>
<td>0</td>
<td>168,906,000,000</td>
<td>No grant was remitted probably due to budget cuts that affected all MDAs.</td>
</tr>
</tbody>
</table>

(ii) **Expenditure**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budget amount</th>
<th>Actual</th>
<th>Progress on implementation of the activity</th>
<th>Audit remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion of the Studio Complex</td>
<td>5,741,000,000</td>
<td>00 (0%)</td>
<td>Building was completed during the year 2011/2012.</td>
<td>There was no need to make a budgetary provision. Resources could have been allocated to revenue generating activities.</td>
</tr>
<tr>
<td>Analogue to digital migration</td>
<td>141,140,000,000</td>
<td>00 (0%)</td>
<td>Infrastructure at Kololo site installed but the issue of Top Boxes has caused a snag in migration</td>
<td>The date set for completion of analog to digital migration was 31/12/2012 and UBC due to insufficient funding may not achieve this objective.</td>
</tr>
<tr>
<td>Expansion of radio and TV</td>
<td>600,000,000</td>
<td>00 (0%)</td>
<td>Nil progress</td>
<td>The activity did not take place due to non-provision of capital funds to UBC by Government.</td>
</tr>
<tr>
<td>Project Description</td>
<td>Budgeted</td>
<td>Allocated</td>
<td>Outcome</td>
<td>Comments</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>----------</td>
<td>-----------</td>
<td>---------</td>
<td>----------</td>
</tr>
<tr>
<td>Purchase and installation of new Studio equipment</td>
<td>9,010,000,000</td>
<td>6,261,527,000 (69.4%)</td>
<td>New equipment was purchased and is being installed in the new building.</td>
<td>The funds allocated were not sufficient to fully equip all the remaining three of the five studios and this will hamper the performance of the broadcasting infrastructure adversely affecting signal reliability to listeners and viewers and generation of more revenue.</td>
</tr>
<tr>
<td>Implementation of the Ministry of Health project</td>
<td>600,000,000</td>
<td>00 (0%)</td>
<td>Project stalled.</td>
<td>Equipment for the health project remains uninstalled in the sites of Moyo, Moroto, Kotido and Kitgum posing a risk of theft, deterioration and becoming obsolete.</td>
</tr>
<tr>
<td>Staffing and training</td>
<td>194,000,000</td>
<td>3,839,000 (1.9%)</td>
<td>Insufficient funding for training and staffing.</td>
<td>The recruitment and training of technical and administrative staff to man the facilities in the ever expanding network is curtailed thereby affecting the general performance of the Corporation.</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>448,200,000</td>
<td>00 (0%)</td>
<td>No vehicles were purchased.</td>
<td>Timely response to attend to news items and faults that happen on the transmission network is hampered.</td>
</tr>
<tr>
<td>Programming and Marketing</td>
<td>302,000,000</td>
<td>124,152,800 (41%)</td>
<td>Insufficient funds to implement planned activities.</td>
<td>Developing and presenting quality targeted programmes that meet the demands and expectations of listeners and advertisers is affected.</td>
</tr>
</tbody>
</table>

Service delivery is hampered and the objectives of the Corporation of developing into a Public National Broadcasting center of excellence may not be achieved.

Management in response stated all radio and TV stations across the country are underperforming due to the fact that most of the prime time is taken up by free Government programmes coupled with inadequate funding from Government. Management further stated that UBC equipment have been used beyond their life span and are experiencing frequent breakdowns resulting into on and off air situations.
I advised management to make realistic plans and budgets, and to ensure that activities are implemented in line with work plans and budgets.

40.15 Audit Inspections

I conducted field inspections of some of the radio stations of Uganda Broadcasting Corporation (UBC) including; Mega FM in Gulu and installations in Dakabela in Soroti district, Namatala in Mbale district and Wanyange in Jinja district. The following observations were made during the inspections:

MEGA FM

40.16 Split of procurements

It was however noted that split of procurements for supply of goods worth UGX.7,000,000 was made with the intention of circumventing the competitive bidding process contrary to PPDA Regulation Section 100 (1). Procurements were split into small amounts to circumvent the procurement threshold of UGX.2,000,000 as per details below:

<table>
<thead>
<tr>
<th>Vr No</th>
<th>Cheque No</th>
<th>Payee</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2339</td>
<td>008036</td>
<td>Company A</td>
<td>1,750,000</td>
</tr>
<tr>
<td>2286</td>
<td>007981</td>
<td>Company A</td>
<td>1,750,000</td>
</tr>
<tr>
<td>2304</td>
<td>008001</td>
<td>Company A</td>
<td>1,750,000</td>
</tr>
<tr>
<td>2297</td>
<td>008054</td>
<td>Company A</td>
<td>1,750,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>7,000,000</td>
</tr>
</tbody>
</table>

Violation of procurement procedures poses risks of fraud, and could lead to procurements of inferior goods and services.

I advised Management to comply with the procurement law. Management in response stated that my recommendation will be implemented. I await the outcome.

40.17 Stationery not taken on charge – UGX. 9,814,000

It was noted that stationery items purchased worth UGX.9,814,500 were not supported by any record from store to confirm that they were taken on charge.

Actual delivery and usage could not be confirmed. Lack of stores records on purchases of
stationery casts doubt as to whether stationery was purchased and put to the intended purpose.

I advised management to improve the stores system.

**40.18 UBC Dakabela**

Inspection of UBC installations in Dakabela, Soroti district revealed that the building at the installation had not been renovated for some time and appeared dilapidated. It was also noted that the UBC land on which the installation is situated has not been fenced off. Besides, this land lacks title of ownership. The photos below refer:

![Dilapidated building at UBC Dakabela](image1)

![The unfenced land where the building is situated](image2)

Lack of renovation of the building will lead to further deterioration. Without fencing, the land is susceptible to encroachment, and without a land title, UBC may not claim legal ownership of this land.
Management explained that they lacked funds to renovate the installations and had drawn the matter to the attention of the line Minister.

I advised management to continue with efforts of liaising with stakeholders with a view of securing funds for fencing and renovation.

**40.19 UBC land at Namatala, Mbale District**

Inspection of UBC installations in Namataba, Mbale district revealed that the building on the land had not been renovated for some time and appeared dilapidated. It was also noted that most of UBC land on which the building is situated was not fenced off. There was only a partial fence and it was noted that the fence in question was too short to guarantee security. Only half of the land was fenced leaving the other half open for trespassers. Notable trespass on the land was a garbage skip belonging to Mbale Municipal Council. Besides, the title to confirm ownership of the land was unavailable. The photos below refer:

- The entrance to the UBC land not fenced.
- Dilapidated building on UBC land
Partial fencing of the land was observed on one side of the land

Encroachment on the UBC land; Mbale Municipal Council garbage skip

Lack of renovation of the building will lead to deterioration. Without fencing, the land is susceptible to encroachment, and without a land title, UBC may not claim legal ownership of this land.

Management explained that they lacked funds to renovate the installations and had drawn the matter to the attention of the line Minister.

I advised management to continue with efforts of liaising with the stakeholders with a view of securing funds for fencing and renovation by liaising with all stakeholders.

41.0 NATIONAL INFORMATION TECHNOLOGY AUTHORITY-YEAR ENDED 30TH JUNE 2013

41.1 Unapproved write-off of Stolen Cash

Included in the prior year’s receivables is a sum of UGX.12,300,000 which was written off as loss in the statement of financial performance without the approval of the Board.
Whereas management in response indicated that the decision to write-off was made by the Board, there was no documentary proof to this effect.

I have advised management to restate the receivables until such a time when the approval of write-off is granted by the Board.

41.2 Revenue Sharing with Posta Uganda

A review of the contract for the operationalization and management of the District Business Information Centers (DBICs) between NITA-U and Posta Uganda signed in April 2012 revealed that the revenue from the operations of DBICs was to be shared in the ratio of 40:60 (40% in favor of NITA-U and 60% for Posta Uganda). However, it was noted that no such revenue has been received by NITA-U since the signing of the contract in April 2012 and no monitoring reports were presented for audit. There is a risk that this revenue could be accruing yet the Authority’s share is not remitted.

Management undertook to hold a joint meeting with Posta Uganda officials to discuss and agree on how to operationalize the Memorandum of Understanding (MOU).

The NITA-U Financial Statements would be adjusted to recognize any revenue earned upon receipt and confirmation of the Revenue Returns from Posta. I await the outcome of this undertaking by management.

41.3 Failure to Collect Revenue

Section 6(e) of the NITA-U Act 2009, empowers the Authority to charge fees for the provision of services. Section 5(a-r) further outlines the functions of the Authority from which it would charge fees. However, it was noted that management has not formulated any regulatory framework that should enable it collect revenue from execution of its functions.

Failure to collect revenue compromises the strategic intent of Authority.

Management in response indicated that The Authority had embarked on developing
regulations to provide for the charging of services. I have advised management to expedite the process of coming up with the regulatory framework that will help it to collect revenue from functions it carries out.

41.4 **Absence of National Information Security Framework (NISF) and National Data Bank**

Section 5(e) of the NITA-U Act 2009 outlines one of the functions of the Authority as creation and management of the national data bank, its inputs and outputs.

On the contrary, management had not yet established the National Information Security framework and the National Data Bank.

Lack of a national data bank and national information security framework compromises the security of national data and information.

Management explained that a draft National Information Security Framework (NISF) had been developed and was awaiting final stakeholder validation and that in order to implement the NISF, the Authority needed a fully staffed Directorate. However, the NITA-U MTEF ceiling for wages had not been raised to accommodate funding for the additional staff required.

I have advised management to take up the matter with the relevant Authorities and have the necessary staff recruited to implement the security framework.

41.5 **Understaffing**

It was noted that the Authority had filled only 42% of the approved staff Establishment. Some of the core positions like that of the Head of Human Resource, Finance Manager and Accountant were yet to be filled. The vacant positions are crucial for the achievement of the objectives of the Authority and for the effectiveness of internal controls.

The low staffing levels affect the level and quality of service delivery by the Authority, may compromise the principle of segregation of duties and these could lead to non-
achievement of the set objectives.

I informed management that operating below the established staff capacity could lead to non-achievement of the authorities set objectives.

Management acknowledged that indeed development and implementation of several critical projects had delayed and/or hampered partly by the inadequate manpower. However, planned recruitments were not undertaken due to budget constraints on the wage bill.
I have advised management to liaise with the Board to ensure that the vacancies are filled and with MoFPED to provide the necessary wage funds.

42.0 UGANDA POST LIMITED – 30TH JUNE, 2011

42.1 Undisclosed inventory items (postage Stamps)

It was noted that Postage stamps with a carrying value of UGX.3,583,701,489 were not recognized as inventory. This was contrary to the requirements of IAS 2 which requires assets held for sale in the ordinary course of business to be recognised. The entity’s inventory in the statement of financial statement was therefore misstated.

Management noted the anomaly and explained that recording stamps as inventories has been effected from the 2011/2012 financial year. I await management action in the subsequent audit.

42.1.1 Share Capital

Paid up share capital of UGX.19,487,175,000 for 779,487 ordinary shares is reflected in the financial statements. However there were no Share Certificates availed to support the amount reflected.

In absence of the share certificates, I was unable to confirm the correctness of the balance reported in the financial statements.

Management explained that the matter of share capital, allotment of shares and share certificates was discussed with the shareholders and will be concluded in the year
2013. I await the results of Management action.

42.1.2 Inventories

It was noted from the stock taking carried out on 30\textsuperscript{th} June 2011 at the General Post Office and upcountry stations that; count sheets were not pre-numbered and could easily be removed and/or replaced without being detected. Also noted was that some items of stock were handwritten by the individuals carrying out the exercise.

There is a risk of misstatement and/or loss of inventory.

In their response, Management appreciated the observation and promised to rectify the anomalies. I advised management to institute proper procedures to ensure inventories at close of the year are well documented.

42.2 Asset management

42.2.1 Value of land and buildings

Posta Uganda had property, plant and equipment valued at UGX.27,345,592,740 out of which the value of land and buildings was UGX.24,150,643,420 as stated in the schedule of property, plant and equipment. IAS 16 requires that assets are revalued regularly to reflect fair market values. However it was noted that the assets were last revalued ten years ago in 2003. As such the value of land and buildings may not reflect the fair market value given changes in market prices.

Management explained that the revaluation process has been initiated and would soon be concluded. Management was advised to expedite the revaluation exercise to ensure assets are fairly reflected in the books.

42.2.2 Properties without land titles

It was observed that the following listed properties included in the entity’s assets register have not had their titles changed from the Uganda Posts and Telecommunication Limited:

- Plot 19 Arua Road Moyo Post Office
- Plot - Atiak Post Office
- Plot 11 Lira Post Office
- Plot - Kasese Post office
There is a risk of loss of the assets since the company has no legal ownership to these properties. Management explained that the process of acquiring titles for the properties had commenced. I advised management to expedite the exercise to avoid potential losses.

42.3 Corporate Governance

42.3.1 Business Name

It was observed that in the Certificate of Incorporation the company is recorded as Uganda Post Limited although it is trading as Posta Uganda. However, the entity trades with the name of Posta Uganda.

This may cause legal complications in future in case clients or other stakeholders bring a case in respect of the name of the company that they are trading with. I have advised management to harmonize the use of trade names to avoid future legal complications.

42.3.2 Annual General Meeting

According to the Memorandum and Articles of Association, shareholders of the Company are the Minister responsible for works (1 share) and the Minister responsible for finance (999,999 shares). However the company did not hold an Annual General Meeting during the year under review. The matter was also noted in the previous year audit report.

It was further noted that the company operationally reports to the Minister responsible for Information, Communication and Technology (ICT) but no instrument was availed for verification to confirm the supervision and reporting lines.

Management responded that AGMs will be held in future and one has been planned to take place in 2013. Management was advised to comply with the Companies Act.

42.3.3 Management of IT risks

Best practice provides that there should be in place risk management policies and practices that identify, assess and treat risks that affect key business objectives. However, I noted that there were no IT policies in place. There is a risk that IT matters may not be appropriately addressed without policies.

Management explained that an IT policy has been developed, and is awaiting Board
approval. Management was advised to have the IT policy approved.

42.4 Planning and Budgeting

42.4.1 Annual Budget
During financial year, Posta Uganda prepared a Revenue budget of UGX.14,341,374,136 and Expenditure of UGX.13,561,818,631. However, it was observed that the entity spent a total of UGX.15,170,201,160 and raised revenue of UGX.17,998,360,622. This resulted into over expenditure of UGX.1,608,382,529 and under budgeted revenue of UGX.3,656,986,486. On comparison of line items, the following were observed:

(i) Some revenue and expenditure items were grossly under-budgeted by a total of UGX.2,564,698,862.
(ii) Some items were over-estimated by UGX.4,014,446,652.
(iii) The entity raised revenue totaling to UGX.7,484,519,688 from items that had not been budgeted for.
(iv) The entity budgeted for some items at UGX.231,200,000. However, there was no expenditure on these items.
(v) UGX.2,053,159,817 was spent on items that were not budgeted for, contrary to regulations and the budget approval process.

The above indicates that budgeting was not properly undertaken and this could lead to misallocation of resources.

Management explained that the deficiencies in budgeting are being addressed to ensure optimal allocation of resources.

I await the outcome of management efforts.

43.0 UGANDA POST LIMITED – 30TH JUNE, 2012

43.1 Non-remittance of statutory deductions

It was noted that UGX.3,677,677,110 in respect of statutory deductions was not remitted to the respective statutory bodies as indicated below:

<table>
<thead>
<tr>
<th>Cost Head</th>
<th>2012 Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>707,580,520</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>1,682,924,560</td>
</tr>
</tbody>
</table>

147
Non-remittance is contrary to the Income Tax Act, the NSSF Act and the VAT Statute and could lead to huge penalties imposed on the company. I advised Management to comply with the law to avoid unnecessary costs in form of penalties.

### 43.2 Share Capital

Paid up share capital of UGX.19,487,175,000 for 779,487 ordinary shares is reflected in the financial statements. However there were no Share Certificates availed to support the amount reflected.

In absence of these certificates, I was unable to confirm the correctness of the balance reported in the financial statements.

Management explained that the matter of share capital, allotment of shares and share certificates was discussed with the shareholders and will be concluded in the year 2013. I await the results of Management action.

### 43.3 Value of land and buildings

Posta Uganda had property, plant and equipment valued at UGX.26,265,192,080 of which the value of land and buildings was UGX.23,709,233,420 as stated in the schedule of property, plant and equipment. IAS 16 requires that assets are revalued regularly to reflect fair market values. However it was noted that the assets were last revalued ten years ago in 2003. As such the value of land and buildings may not reflect the fair market value given changes in market prices.

Management explained that the revaluation process has been initiated and would soon be concluded. Management was advised to expedite the revaluation exercise to ensure assets are fairly reflected in the records.

### 43.4 Properties without land titles

It was observed that the following listed properties included in the entity's assets register have not had their titles changed from the Uganda Post and Telecommunication Limited:
- Plot 19 Arua Road Moyo Post Office
- Plot - Atiak Post Office
- Plot 11 Lira Post Office
- Plot - Kasese Post office

There is a risk of loss of the assets since the company has no legal ownership of these properties.

Management explained that the process of acquiring titles for the properties had commenced. I advised management to expedite the exercise to avoid potential losses.

43.5 **Disposal of property / land**

Posta Uganda sold land sold to the Inspector General of Government (IGG) at a cost of UGX 5,400,000,000. This transaction started in the financial year 2010/2011 and was still ongoing by 30th June 2012. The IGG had an outstanding balance of UGX 1,019,000,000 as at 30th June 2012 which was expected to be cleared in the 2012/2013 financial year.

A substantial amount of these capital funds were received (UGX 4,381,000,000) by the 30th June 2012. However, these capital receipts were used by Management for recurrent expenditure including settlement of pension liabilities and NSSF. Management did not adequately plan for its recurrent expenditure resulting into disposal of a prime property. There is a risk that inadequate planning may lead to more disposal of capital assets for recurrent expenditure, depriving the entity of a strong capital base.

I advised management to appropriately match its sources of income with expenditure to avoid depletion of capital assets.

43.6 **Business Name**

It was observed that the Certificate of Incorporation the company is recorded as Uganda Post Limited although it is trading as Posta Uganda. However, the entity trades with the name of Posta Uganda.

This may cause legal complications in future in case clients or other stakeholders bring a case in respect of the exact name of the company that they are trading with. I have
advised management to harmonize the use of trade names to avoid future legal complications.

43.7 Annual General Meeting

According to the Memorandum and Articles of Association, share holders of the company are the Minister responsible for works (1 share) and the Minister responsible for finance (999,999 shares). However the company did not hold again an Annual General Meeting during the year under review. The matter was also noted in the previous year audit report.

It was further noted that the company operationally reports to the Minister responsible for Information, Communication and Technology (ICT) but no instrument was availed for verification to confirm the supervision and reporting lines. Management responded that AGMs will be held in future and one has been planned to take place in 2013. Management was advised to comply with the Companies Act.

43.8 Management of IT risks

Best practice provides that there should be in place risk management policies and practices that identify assess and treat risks that affect key business objectives. However, I noted that there were no IT policies in place. There is a risk that IT matters may not be appropriately addressed without policies.

Management explained that an IT policy has been developed, and is awaiting Board approval. Management was advised to have IT policy approved.

43.9 Payment of Electricity Bills to Uganda Telecom Ltd

During the year, Posta Uganda paid out UGX.230,000,000 to M/s Uganda Telecom Ltd for the supply of electricity. Although management indicated that they are supplied through a subsidiary meter and not that of UMEME since they did not have their own meter, the basis of apportionment of utilities could not be determined. It was further observed that management did not demonstrate efforts to contain this surging power bill to manageable levels.

The operations of the entity may come to a halt as a result of power disconnection due to power bills.
Management is advised to have their own power meter for easy monitoring of the power consumed.

44.0 UGANDA POST LIMITED – 30TH JUNE, 2013

44.1 Non-revaluation of land and buildings

Included in the property, plant and equipment valued at UGX.17,403,868,660 is a balance of UGX.14,847,910,000 in respect of land and buildings. However, contrary to IAS 16 which requires that assets are revalued with sufficient regularity to reflect fair market values, it was noted that the assets were last revalued ten years ago in 2003. In the circumstances, the reported value of land and buildings may not be fairly stated.

In response to this observation that was also included in my previous report to parliament, management had indicated that the revaluation process had been initiated and would soon be concluded. However, the valuation exercise had no been undertaken by close of the year under review.

I have advised management to expedite the valuation exercise and make the necessary adjustments accordingly.

44.2 Revenue Shortfall

During the year under review, UPL budgeted to collect revenue amounting to UGX.24,254,634,673 from various revenue centres, but only realized UGX.18,596,319,710, thereby registering a shortfall of UGX.5,658,314,963 (about 23% of the budget). Failure to collect all the budgeted revenues constrains management in implementation of all the planned activities for the period.

In response management attributed the shortfall to unrealistic budget assumptions, plummeting demands for traditional postal products and the many new products (financial services) that were not launched during the year.

I have advised management to endeavour to formulate realistic annual budgets and strengthen its revenue collection efforts.

44.3 Inadequate Credit Control
Sections 8.3.2(e) of UPL’s finance policies and procedures manual requires management to fix credit limits for all customers who have been granted credit facility that in any case should not go beyond three months.

On the contrary, it was noted that UPL had no credit limits set for the customers and further still, the credit facility for most customers were found to exceed the three months and as a result debts had accumulated to UGX. 1,730,131,943 as per aged analysis extract below:

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>180 Days (UGX)</th>
<th>150 Days (UGX)</th>
<th>120 Days (UGX)</th>
<th>90 Days (UGX)</th>
<th>Balance (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy mail</td>
<td>68,104,174</td>
<td>(500,000)</td>
<td>(750,000)</td>
<td>(250,000)</td>
<td>66,604,174</td>
</tr>
<tr>
<td>Postage prepaid</td>
<td>519,087,807</td>
<td>(10,060,063)</td>
<td>39,632,196</td>
<td>161,620,260</td>
<td>710,280,201</td>
</tr>
<tr>
<td>EMS</td>
<td>921,113,185</td>
<td>23,302,394</td>
<td>(17,867,005)</td>
<td>26,698,995</td>
<td>953,247,569</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,508,305,166</strong></td>
<td><strong>12,742,331</strong></td>
<td><strong>21,015,192</strong></td>
<td><strong>188,069,255</strong></td>
<td><strong>1,730,131,944</strong></td>
</tr>
</tbody>
</table>

Failure on the part management to set credit limits may lead to accumulation of debt to unrecoverable levels which may require writing off hence financial loss to the company.

Management in response stated, that a draft Credit Policy defining matters of thresholds, longevity, and management of credit had been prepared awaiting Board approval. In addition, the review of accounts payable had been intensified to ensure that credit transactions are effectively managed. I have advised management to ensure that credit control policies and procedures are documented, approved and circulated to staff for implementation.

### 44.4 Outstanding Statutory Deductions

During the period under review UPL withheld a sum of UGX.83,124,230 in respect of Local Service Tax (LST). However, the funds had not been remitted to the respective authorities by close of the year under review. I informed management that non remittance of statutory deductions may attract penalties and related costs thereby impacting negatively on the strategic intent of the entity.

Whereas management indicated that a payment plan had been agreed upon with the relevant Statutory Agencies, there was no documentary proof to this effect. I have
advised management to remit the deductions in time as required by the relevant legislation.

44.5 **Nugatory Expenditure**

It was noted that during the year under review UPL was penalized with UGX. 140,917,114 failures to discharge its tax obligations within the statutory timeframe by Uganda Revenue Authority (URA). I explained to management that such expenditure is considered nugatory as it could have been avoided.

In response management explained that the interest on taxes arose from a long term liability established following a URA Tax Audit that was carried out for the period between 2005 and 2010. I have advised management to always abide by statutory time frames for paying taxes in order to avoid these unnecessary penalties.

44.6 **Property without Title Deeds**

UPL Finance Policies and Procedure Manual section 10.1 (c) states that “the company shall take appropriate measures to safeguard noncurrent assets from loss, theft and damage”. However, a review of UPL’s database on properties/land and buildings revealed occupancy of properties with no title deeds or whose lease periods had expired as highlighted in the table below:

<table>
<thead>
<tr>
<th>Location</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUWERO POST OFFICE</td>
<td>No Title</td>
</tr>
<tr>
<td>KAKIRA POST OFFICE</td>
<td>No Title</td>
</tr>
<tr>
<td>KALIRO POST OFFICE</td>
<td>No Title</td>
</tr>
<tr>
<td>BUSEMBATYA POST OFFICE</td>
<td>No Title</td>
</tr>
<tr>
<td>BOMBO POST OFFICE</td>
<td>Expired Lease</td>
</tr>
<tr>
<td>KASESE POST OFFICE</td>
<td>Expired Lease</td>
</tr>
<tr>
<td>MASAKA POST OFFICE</td>
<td>Title not availed for verification</td>
</tr>
<tr>
<td>MBARARA POST OFFICE</td>
<td>Expired Lease</td>
</tr>
<tr>
<td>ATIAK POST OFFICE</td>
<td>No Title</td>
</tr>
<tr>
<td>MOYO POST OFFICE</td>
<td>Expired Lease</td>
</tr>
</tbody>
</table>

I informed management that there is a risk of encroachment of the land by unscrupulous individuals.

Management in response stated that, significant effort had been made to engage Local
Authorities to secure Certificates of Title for all UPL’s properties. I have advised management to expedite the process of renewal of leases and acquire titles for the respective company properties.

44.7 **Failure to hold Annual General Meeting (AGM)**

Section 131 (1) of the companies Act (Cap 110) states that “Every company shall in each year hold a general meeting as its Annual General meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it; and not more than fifteen months shall elapse between the date of one annual general meeting of a company and that of the next; except that so long as a company holds its first Annual General meeting within eighteen months of its incorporation, it need not hold it in the year of its incorporation or in the following year.”

On the contrary, the company did not hold an Annual General Meeting during the year and there was also no evidence of AGMs held in the past. Failure to hold AGMs denies shareholders the right to monitor the Company and also casts doubt on the stewardship role of management.

Management in response stated that the AGM awaits appointment of the Board of Directors. I have advised management to ensure that the AGMs are held in accordance with the law.

44.8 **Non Compliance with DFCU Service Contract**

Section 7 of the Postage Prepaid Service Contract signed between Posta Uganda and DFCU Ltd on 29/4/2005 states that a client’s minimum balance shall be determined by his monthly postings. In this case, the client would be required to have at all times a balance of not more than UGX.5,000,000.

However, review of the DFCU account ledgers showed that DFCU is indebted to a tune of UGX.25,499,799 implying that DFCU surpassed the credit limit by UGX.20,000,000 contrary to contract terms. Furthermore, audit, through observation, noted that it was no longer prepaid service but postpaid contrary to the contract.
Management in their response indicated that they had managed to collect UGX.25,535,965 from DFCU Bank on account of the outstanding balance as of the end of the financial year. And subsequently the business of Posta Prepaid changed, contract Terms with DFCU changed and it is now a post-paid service.

I have advised management to recover the monies due and enforce or review the terms of existing contracts.

44.9 **Incomplete Staff Files**

Section 10 of the Employee Regulations, Terms and Conditions of Services outlines the records to be maintained on Employees’ personnel files. Contrary to this provision employee personnel files lacked documents like Job Advertisement, Medical Examination Form, Applications, List of Beneficiaries, Tax Identification Numbers, Interview record, authority to recruit or promote. This is attributed to lack of review of the employee personnel, in terms cross checking the requirements of section 10 and the personnel file.

I have advised management to ensure that the employee files are completed with the necessary documentation as per the Employee Regulations, Terms and Conditions of service.

44.10 **Maintenance of Property, Plant and Equipment**

According to Uganda Post Limited approved budget for the year under review, UGX.300,000,000 was allocated to maintenance of buildings while UGX.6,000,000 was meant for machinery and equipment. However, physical inspection of the Head Office and a selected number of post office branches revealed the following state of affairs:

- The letter boxes were not lockable
- Poor storage of customer mails
- Abandoned and undelivered customer mails
- The fire extinguishers were not regularly serviced
- The furniture was in poor state

The affected places include Head Office, Mpiigi, Masaka, Mbarara and Kasese. I informed
management that when a building is not maintained especially toilets, it becomes an inconvenience to the occupants while fire extinguishers that are not regularly maintained pose a risk in case of a fire outbreak.

In response, management explained that most company buildings are dilapidated. The Board carried out a physical inspection and instructed management to engage Public Private Partnerships (PPPs) and carry out re-developments. According to management, the PPP process was on-going.

I have advised management to carry out regular maintenance on the buildings, machinery and equipment. Meanwhile, the outcome of management’s engagement with PPP is awaited.

TRADE AND TOURISM SECTOR

45.0  UGANDA WILDLIFE AUTHORITY - YEAR ENDED 30TH JUNE 2013

45.1  Non-revaluation of Assets

A review of the financial statements revealed that Plant, Property and Equipment (PPE) of UWA including land, Buildings and Aircrafts had not been revalued with sufficient regularity (3 to 5 years) as required under IAS 16. It was noted that the last revaluation had been undertaken in 2006.

Management is exposed to a risk of recognizing these assets at carrying amounts that materially differ from their fair values.

Management explained that UWA had signed a contract with a local firm to undertake the revaluation exercise. I await the outcome of management’s this undertaking.

45.2  Inadequate System for Collecting Concessions Income

A review of the concession income- franchise fees revealed that the Authority depends on the information (concessionaire self-assessment) provided by the various concessionaires to determine the franchisee fees Income. Also noted was that contrary to the
Concession agreements which require UWA to obtain copies of the concessionaires’ audited annual financial statements and have access to their books of accounts to enable UWA ascertain the correct amounts of concession income, there was no evidence to show that UWA ever enforced this requirement.

Therefore the correctness and completeness of the concession income stated at UGX.2.5 billion in the financial statements could not be reliably verified. In the absence of the concessionaires’ audited annual accounts, UWA could not independently verify whether the concession fees paid were based on actual performance of the concessionaire.

Management attributed the variances between the concessionaire and UWA records to the fact that visitors recorded at the gate may elect not to use accommodation facilities in the concessions. They further explained that reconciliations between the concessionaires and UWA records were done and an agreement reached and that a smart card system had been introduced to enable the tracking of guest statistics at the concessionaires.

I have advised management to ensure that the Tourism Wardens in the different protected areas provide accurate, timely reports of franchise statistics for reconciliation with the Concessionaire reports before billing.

45.3 **Non Compliance with IAS 12 on Income Taxes**

It was noted that the authority did not comply with Tax requirements. No income and deferred Tax computations were availed to us and no tax returns were filed as per Income Tax Law requirements.

Noncompliance with the financial reporting standards not only exposed the Authority to a risk of penalties and loss of a potential Withholding Tax Asset in transactions where it is charged but could also render the operating results and financial position misrepresented.

Management undertook to engage a tax consultant to handle the matter. I have advised management to always comply with the tax laws.

45.4 **Failure to update the Fixed Assets Register**

The fixed assets registers at Headquarters and at National Parks like Mgahinga were not
up to date. In the circumstances, reconciliation of the general ledger with the physical assets was not possible. Additionally, computation of depreciation for individual assets could not be correctly ascertained.

Management in response undertook to maintain a fixed assets register at the different protected areas.

I have advised management to ensure that comprehensive fixed assets registers are maintained at the various protected areas.

45.5 **Inadequate disaster recovery system**

UWA did not have an adequate Disaster Recovery Plan (DRP) for the period under review. No offsite backups were kept. For example, when the Authority’s Sun Accounting Server crashed in November 2012, management could only recover data up to September 2012 and data had to be re-entered thereby delaying the Authority operations and other activities such as the annual statutory audit. In view of the foregoing, management is exposed to a risk of complete data loss in the event of a disaster.

Management acknowledged the undesirable state of affairs and undertook to develop a DRP and implement an offsite backup system. I await management’s commitment in this regard.

46.0 **UGANDA NATIONAL BUREAU OF STANDARDS - YEAR ENDED 30TH JUNE 2013**

46.1 **Accounts Payable**

Disclosed in the financial statements were liabilities of UGX.3,282,743,025 broken down as Trade Creditors; UGX.1,402,567,344, National Social Security Fund; UGX.654,725,376 and Uganda Revenue Authority; UGX.1,225,450,305. The accumulation of liabilities contravenes the commitment control system and the failure to remit statutory deductions may attract fines and penalties.

Management attributed the arrears to budget cuts and explained that a request to MoFPED for a supplementary budget to clear the accumulated arrears was not honoured. It was further explained that, the National Social Security Fund (NSSF) and Pay As You Earn (PAYE) obligations were to be provided for within the 2013/2014 budget. I have advised management to continue liaising with MoFPED for the necessary funding to
reduce the accounts payables.

46.2 Government Funding/Budget Performance

Out of the total approved budget of UGX.15,767,594,000 only UGX.14,056,529,435 (89%) was released resulting in a shortfall of UGX.1,711,064,565 comprising UGX.1,484,071,162 (GoU) and UGX.226,993,403 (NTR). This has the effect of constraining the implementation of the planned activities of the Bureau.

Management stated that the Non Tax Revenue component was difficult to predict because of the effects of different economic conditions which influence demand for the Bureau’s services. I have advised management to liaise closely with MoFPED to ensure that all appropriated funds are released and to always make realistic budgeting for NTR.

46.3 Under Staffing

It was noted that out of the 457 approved positions only 234 (51%) were filled. Staffing gaps affect the level of service delivery. Management explained that efforts to have the vacant posts filled were constrained by the inadequate budget support towards the wage bill for the previous 3 years despite annual requests to the Ministry of MoFPED. I have advised management to liaise with MoFPED to enhance the wage component and fill the vacant positions.

46.4 Staff in acting positions

Review of staff records revealed that there were seven (7) staff members who had been in acting capacity for periods ranging from 9 to 39 months. Management explained that the extended period in acting positions of some staff was a result of on-going review of the organization structure. I have advised management to expedite the review and fill the posts.

46.5 Lack of performance plans

A review of staff personal files indicated that staff lack individual performance plans. In the circumstances the staff cannot be appraised against defined key outputs, performance indicators and targets. It also implies that the Bureau is unable to identify performance gaps and develop performance improvement strategies for the individual
employees.

Management explained that the Bureau had engaged a consultant to conduct a Human Resource audit review and develop a Performance management tool to be operationalized during 2014/15 financial year. I have advised management to hasten the process and have the tool in place for proper staff performance management.

46.6 **Lack of a Comprehensive Risk Management Policy**

Risk assessment is the Identification and analysis of relevant risks in order to develop necessary control measures to achieve the entity objectives. However, management lacked fraud control policy and a comprehensive risk management system. This hampers the ability of the Bureau to mitigate and timely take corrective actions. I have advised management to put in place risk management policies and mitigation procedures.

7.12 **Funds not remitted to the Consolidated Account**

UGX.45,129,071 was transferred from Treasury General Account to Non Tax Revenue (NTR) account to cater for other Bureau expenses instead of returning the funds to the consolidated fund, as required by paragraph 433 of the Treasury Accounting Instructions, 2003. Management attributed the anomaly to the need to pay staff advances of UGX.30,880,941 and suppliers UGX.14,248,130 whose accounts had not yet been created in the IFMS. I have advised the Accounting Officer to always seek relevant authority from Treasury for retention of funds.

46.7 **Control over Accountable stationery**

The Treasury Accounting Instructions, 2003 requires revenue counter forms to be printed with the written authority of the Accountant General and these should be printed by the Government printer. Contrary to this, the receipts used by the Bureau were neither printed by the Government printer nor approved by the Accountant General. Inadequate controls over Revenue receipts may result into under collection and/or misappropriation of funds. I have advised management to seek for the necessary approval from the Accountant General and have receipts printed by the Government printer.

47.0 **UGANDA TOURISM BOARD - YEAR ENDED 30TH JUNE, 2013**
47.1 **Mischarge of Expenditure**

The Treasury Accounting Instructions (TAIs) require all government transactions to be recorded in the books of account using the Government of Uganda chart of Accounts as prescribed by the Accountant General and the Accounting Officers to ensure that all financial transactions are properly coded.

It was however noted that out of total expenditure of UGX.1,389,233,486 incurred during the financial year a sum of UGX.435,791,355 (41%) was charged under wrong expenditure codes resulting into mischarge.

The practice distorts the intentions of the appropriating authority and misrepresents the financial statements. Management attributed the anomaly to budget cuts in certain items thereby necessitating encroachment on codes with some balances.

I have advised management to always liaise with MOFPED to ensure appropriated funds are released to the entity.

47.2 **Format and Presentation of Financial Statements**

It was noted that the statements of financial performance, financial position, cash flows and all accompanying statements and schedules consistently omitted the budget column hence making it difficult to compare the performance of the Board against approved budget. The financial statements are therefore incomplete.

Management indicated that this is a systems error since the financial statements are generated using IFMS. I have advised management to seek guidance from the Accountant General to enable compliance with the prescribed formats.

47.3 **Non tax Revenue Shortfall**

Out of the revenue budget for Non-Tax Revenue of UGX.400,000,000 only UGX.242,073,767 was realized resulting into a shortfall of UGX. 157,926,233(40%). Management stated that due to funding constraints, they were unable to participate in international trade fairs from which they expected to collect the NTR. I have advised management to always liaise with the MOFPED to ensure adequate funding for activities that generate revenue for the entity.
47.4 **Irregular Borrowing**

Section 20 (1) of the Public Finance and Accountability Act 2003 places the authority to raise money by loan for and on behalf of the Government to the Minister responsible for Finance and requires that no other person or public organization shall, without the prior approval of the Minister, raise any loan or issue any guarantee, or take any other action which may in any way either directly or indirectly result in a liability being incurred by the Government. Section 19 (f) of the Uganda Tourism Act 2008 allows the Board to borrow only with the approval of the Minister responsible for Tourism.

Contrary to the above provisions, the Board entered into a loan agreement with Uganda Wildlife Authority (UWA) for a loan of UGX.200,000,000 on the understanding that the loan would be repaid when the Board received funds from the Treasury. There was no evidence that the necessary authority and approval were sought and obtained from the respective ministers.
Failure to comply with the law regarding borrowing could lead to loss of funds.

Management stated that due to budget cuts, the Board was compelled to borrow funds to facilitate participation in the World Travel Market Fair in London which had been booked since this is one of Uganda’s leading Tourism markets. I have advised management to always follow the law whenever a need to borrow arises.

47.5 **Failure to Withhold Tax**

Sec. 119 (1) of the Income Tax Act requires all Government institutions to withhold tax at the rate of 6% on payments to suppliers of goods and services exceeding one million shillings and remit it to Uganda Revenue Authority. It was noted that UGX.9,121,840 was not withheld from the payments in respect of rent for various premises occupied by UTB and the partitioning of UTB National Theatre office. Besides, there was no evidence that the payees were exempted from Withholding Tax. The anomaly may attract fines and penalties from the tax body.

Management stated that failure to withhold taxes was a systems error because the IFMS system is supposed to automatically capture Withholding Tax. I have advised the
Accounting Officer to liaise with the Accountant General to ensure correction of systems errors and subsequently settle the tax obligation.

47.6 **Lack of a Risk Management Framework**

It is best practice that management periodically assesses the risks the entity faces from both external and internal factors and take appropriate action to manage the identified risks. However, it was noted that the Board has not established an effective entity-wide risk assessment and management framework that can help identify risks before they occur and plan to take appropriate action to mitigate them. Management promised to prioritise the process of establishing the framework. I await results of this commitment.

47.7 **Lack of an Internal Audit Function**

It was noted that the Board did not have an Internal Audit function as part of the internal control framework, contrary to good corporate governance requirements. The management explanation that the MTWA Internal Auditor had been providing internal audit services was not supported with work plans and reports. Management further stated that the new organization structure provides for an Internal Auditor and plans are underway to fill the position. I await evidence of management action.

47.8 **Lack of an IT Strategic Plan**

It was noted that the Board did not have an Information Technology Strategic Plan despite investing in several networked IT solutions and systems that store vital data and information including the Integrated Financial Management System (IFMS). There is also no IT policy to provide guidance on the use of the IT resources. Management stated that UTB was working under the general guidance of the Ministry of ICT with regard to IT investments. I have advised management to develop a specific IT Strategic Plan to guide investments, security and use of the equipment.

48.0 **NILE HOTEL INTERNATIONAL LIMITED - YEAR ENDED 31ST DECEMBER, 2012**

48.1 **Concession Fees**
As reported in my previous reports to Parliament, Nile Hotel International Ltd (NHIL), the Government of Uganda and TPS (U) Ltd signed a Concession agreement dated 15\textsuperscript{th} January, 2004. According to the agreement, NHIL was to earn 4% from the gross Revenue of TPS (Uganda) limited. It was however noted that the agreement did not provide an independent mechanism under which NHIL could verify the gross revenue earned by TPS (Uganda) Ltd so as to assess the fees to be paid to NHIL. As a result, NHIL is wholly dependent on information provided by TPS (Uganda) Ltd for computation of the concession fees.

In the absence of an independent verification mechanism, I could not confirm the completeness and accuracy of the concession income of UGX.1,666,114,030 reported in the financial statements. There is a risk that the gross income could be under declared to pay lower concession fees.

48.2 **Non-depreciation of concessioned buildings**

IAS 17 requires that assets held for operating leases should be presented in the balance sheet of the lessor according to the nature of the asset. This implies that the buildings leased out to TPS(U) Ltd should be reflected in the financial statements and accordingly be depreciated.

A review of the financial statements of NHIL revealed that the buildings have not been depreciated contrary to the provision. As a result, am not in position to confirm that the value of Property, plant and equipment stated at UGX.74,660,848,191 in the statement of Financial statements if fairly stated.

Management explained that at the time of drawing up the concession agreement, depreciation of buildings was not taken into consideration because of its effect of eroding income from concession fees. I have advised management to comply with the requirements of the accounting standard.

48.3 **Long outstanding Debtors**

Section7.3.5 (d) (i) and (ii) of the Financial Policies and Procedures Manual of the Company requires consideration of a debt write-off under the following circumstances:

- Where a debt has been outstanding for at least 18 months and there is lack of
supporting documentation to prove that settlement will be forthcoming or enforceable;

- Where a debt is in dispute, full transaction documentation is lacking and there are no alternative means of proof of the transaction having occurred as acceptable to the debtor; and

- Where a debt is a result of fraudulent transactions, which the purported debtor has no knowledge of and this fact is confirmed through legal investigation and proceedings.

However, it was observed that management reported Trade and other Accounts Receivables amounting to UGX.1,794,685,505 which have remained uncollected since the commencement of the concession in 2004. There is a risk that the reported debtors balance of UGX.2,196,537,021 is not fairly stated.

Management explained that they had initiated the process of writing off these receivables to be effected in the financial statements for the year ending 31\textsuperscript{st} December 2013. I await the outcome of this process.

48.4 **Improper treatment of Prior year adjustments**

As reported in my previous report, it was noted that a prior year adjustment totaling UGX.86,860,795 was reflected in the Cash Flow Statement. However, no explanations were provided for this adjustment. Besides it is not clear how a prior year adjustment would involve movement of cash. Therefore, this appears to contravene IAS 1 which requires only cash inflows, outflows and cash and cash equivalent to be included in the cash flow statement.

Whereas management regretted the anomaly and undertook to correct it, there was no proof to this effect.

48.5 **Failure to hold Annual General Meeting**

Section 33 of the Companies Act, Cap 110 stipulates that Annual General Meetings (AGM) shall be held at least once in every calendar year at such time (not being more than fifteen months after the holding of the preceding general meeting) and at such place as
may be determined by the directors.

However there was no evidence in form minutes to show that the Board of Directors of NHIL has ever convened any Annual General Meeting since the Company was incorporated in October, 1994. This could explain why some members have overstayed to the extent of sitting on the Board since 1994. Failure to hold AGM is irregular and it also implies that key policy decisions are not taken by members as required under the Companies Act.

Management explained that the company had been in the process of streamlining its operations as an asset holding company and during this time annual general meetings could not held. The Board recognized the importance an AGM and had planned and budgeted to convene one in the year 2014. I await the outcome of management’s commitment in this regard.

49.0  UGANDA EXPORT PROMOTION BOARD - YEAR ENDED 31ST DECEMBER 2012

49.1  Payables

Section 198 of the Treasury Accounting Instructions (TAI), 2003 requires all purchases of goods or services to be subject to the Commitment Control System. A review of the financial statements revealed that UEPB payables increased from UGX. 623,451,763 to UGX.827,170,398 indicating an increment of UGX. 203,718,635 over one year. The continued accumulation of domestic arrears poses a huge burden to Government and may lead to litigation.

I advised management to devise strategies in liaison with Ministry of Finance Planning and Economic Development to clear the domestic arrears. I also advised management, to adhere to the commitment control system.

49.2  Procurement Irregularity

UGX.22,707,178 was incurred on procurement of insurance services and various goods and services during the year under review. It was however noted that the entity purchased the services through direct procurement without the contract committee’s
approval. Besides the procurement was not subjected to competition contrary to PPDA regulation 85(1). In the circumstances the principles of competition, transparency and fairness were compromised.

Management attributed the anomaly to sudden departure of staff, some of whom were contracts committee members and the Procurement Officer, and yet some of the procurements such as insurance services (workman’s compensation) were urgent.

I advised management that in cases of absence of a contract’s committee, they could request for services of the contracts committee and the procurement unit of the parent ministry of Finance, planning and economic development.

49.3 Segregation of Duties

Review of the accounting function revealed that the cashier doubles as the in charge of the store as well as custodian of revenue receipt books, cash collections and banking. These duties are incompatible because their execution by one individual can perpetuate fraud and other system weaknesses such as errors, omissions and misstatements without detection.

Management indicated that staff shortages in the Finance division necessitated combining some functions.

I have advised management to ensure key related accounting functions are assigned to different staff to ensure checks and balances in the system.

50.0 UGANDA PROPERTY HOLDINGS LIMITED - YEAR ENDED 30TH JUNE 2013

50.1 Bank Loan

The company obtained a loan from CFC Stanbic bank, Mombasa branch in 2006 repayable over 7 years, to construct a car port and expected to service the loan using the rent received from the tenant. However, the tenant encountered challenges arising from business rivalries and municipal restrictions, thereby failing to pay rent. As a result, the loan was restructured in September 2011 changing the repayment period to a further 7 years with an increased interest payable. The principle loan amount stood at UGX.3,309,727,470 as at 30th June 2013

There is a risk of losing money in this business venture which is currently not maximally utilised due to business rivalries in Mombasa.
Management explained that the Company failed to pay the monthly installments of KShs.5,200,000 leading to the Board’s decision to restructure the loan in September 2011, whose balance stood at KShs.123,998,170, at that time.

I have advised management to assist the tenant through consultations with the Municipal authorities using the EAC structures. Meanwhile management should ensure that it follows the repayment plan instituted by the Board.

50.2 Non coding of payments prior to posting to ledgers

It was noted that the payment vouchers were not coded prior to posting of expenditure to the ledgers. Failure to classify the payments prior to posting may lead to misclassification of the expenditure at the time of posting. This makes it difficult to match the individual payment voucher with the ledger balances. There is a risk of misrepresentation of the individual expenditure balances in the financial statements. Management acknowledged the error and undertook to code the payments in future.

I have advised the Accounting Officer to liaise with the Accountant General develop a proper coding system by developing a chart of accounts.

50.3 Revenue performance

A review of the budget estimates and the financial statements for the year revealed that out of the total budget of UGX.6,033,916,522, only UGX.4,745,255,784 (79%) was actually collected, creating a shortfall of UGX.1,288,660,738. Failure to realize all the budgeted revenues hinders implementation of planned activities and consequently the attainment of company objectives.

Management attributed the shortfalls to the idle car park in Mombasa from which UGX.1.332Bn had been planned to be collected. I have advised management to identify and adequately address the causes of under collection of revenue for improved funding.

50.4 Lack of Performance Plans

Staff performance appraisal is part of the performance management which helps to identify performance gaps and development needs of individual employees. A review of the personnel files indicated that they all lacked performance plans to be used as a basis for appraisal.

In his response, the Accounting Officer explained that UPHL developed a performance
management tool although which was pending approval of the board for implementation. I have advised the Accounting Officer to ensure that the Human Resource Department and supervisors agree on performance plans with the supervisees, to be used a basis for appraisals at the end of the performance period.

51.0 **UGANDA DEVELOPMENT COMPANY LTD. - 31ST DECEMBER, 2012**

51.1 **Disclosure of UDC Interest in Kalangala Infrastructure Services**

UDC acting on behalf of government is an equity partner in a USD.50 million venture in Kalangala Infrastructure Services (KIS). UDC alongside M/S Infraco and IDC of South Africa is expected to contribute USD.6.5 million. In the year under review, it extended a sum of UGX.16,559,891,812 to KIS. However, contrary to International Accounting Standard (IAS) 31 - Investment in Joint Ventures (JVs), the following disclosure requirements for a Jointly Controlled Entity were not adhered to:

- Information about commitments relating to its interests in the JV.
- A description of interests in significant JVs and the proportion of ownership interest held in a jointly controlled entity.
- Aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in the JV.
- The method it used to recognize the interests in the jointly controlled entity.

In view of the aforementioned, the financial statements are misrepresented in this regard. In response, management concurred with the observation and promised to make detailed disclosures, as required.

My recommendation to management to make the necessary disclosures was not implemented.

51.2 **Presentation of Financial Statements**

The presentation of financial statements lacked the following information to make the set complete;

- Statement of responsibilities by the accounting Officer and commentary by the Head of Accounts on the financial statements.
- Comparative balances were inconsistent with the audited financial statements for the year ending 31st December 2011.
- Information about the reporting entity, including address, status, and bankers among
In view of the above, the financial statements remained incomplete in this regard.

I have advised management to ensure that the set of financial statements presented for audit is complete with all the required information.

51.3 Absence of key policies

It was noted that the Corporation lacked the following key policies contrary to good governance practices;

<table>
<thead>
<tr>
<th>No</th>
<th>Policy</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strategic Plan (currently in draft form)</td>
<td>To enable the entity operate without a clear sense of direction.</td>
</tr>
<tr>
<td>2</td>
<td>Policies on fixed assets</td>
<td>To guide in the management of the fixed assets of the Corporation.</td>
</tr>
<tr>
<td>3</td>
<td>Risk Management and fraud risk control policy</td>
<td>To mitigate challenges/events that would prevent management from achieving the Corporation objectives.</td>
</tr>
<tr>
<td>4</td>
<td>Revenue Management &amp; Credit policy</td>
<td>To guide in the effective management of the Corporation’s revenue and debtors.</td>
</tr>
</tbody>
</table>

Absence of these policies implies that management’s actions in the areas mentioned is haphazard, which may negatively affect the operations of the Corporation.

The Accounting explained that a draft Strategic Plan was in place awaiting Board approval and further indicated that the other policies were being developed.

I have advised management to expedite the process of putting in place the various policies for effective operation of the Corporation.

52.0 Uganda Wildlife Training Institute - Year Ended 30th June, 2013

52.1 Over expenditure

Management spent UGX.169,112,642 in excess of the budget of UGX.282,979,000 without the necessary approvals. Details are shown in the table below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Budget(UGX)</th>
<th>Actual(UGX)</th>
<th>Over(UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>256,850,000</td>
<td>351,780,700</td>
<td>94,930,700</td>
</tr>
<tr>
<td>Fuel, lubricants &amp; Oils</td>
<td>4,800,000</td>
<td>7,815,100</td>
<td>3,015,100</td>
</tr>
<tr>
<td>Exams</td>
<td>19,329,000</td>
<td>23,536,000</td>
<td>4,207,000</td>
</tr>
<tr>
<td>Office equipment</td>
<td>0</td>
<td>353,000</td>
<td>353,000</td>
</tr>
<tr>
<td>Uniform &amp; protective gears</td>
<td>2,000,000</td>
<td>6,290,000</td>
<td>4,290,000</td>
</tr>
<tr>
<td>Item</td>
<td>Before</td>
<td>After</td>
<td>Change</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Maintenance: vehicles</td>
<td>0</td>
<td>6,054,900</td>
<td>6,054,900</td>
</tr>
<tr>
<td>Newspapers</td>
<td>0</td>
<td>612,000</td>
<td>612,000</td>
</tr>
<tr>
<td>Graduation</td>
<td>0</td>
<td>44,386,700</td>
<td>44,386,700</td>
</tr>
<tr>
<td>Advertising</td>
<td>0</td>
<td>240,000</td>
<td>240,000</td>
</tr>
<tr>
<td>NSSF</td>
<td>0</td>
<td>1,417,133</td>
<td>1,417,133</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>0</td>
<td>2,566,109</td>
<td>2,566,109</td>
</tr>
<tr>
<td>Students Guild Expenses</td>
<td>0</td>
<td>7,040,000</td>
<td>7,040,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>282,979,000</td>
<td>452,091,642</td>
<td>169,112,642</td>
</tr>
</tbody>
</table>

Without the required approvals, there was no basis of allowing the excess expenditure to stand in the financial statement.

In response management indicated that the excess expenditure was an oversight. I have advised management to always seek approval prior to spending beyond the approved budget.

52.2 **Lack of a land Title**

Uganda Wildlife Training Institute is located on a thirty (30) acre piece of land for which a land title was yet to be secured. In the event that unscrupulous persons encroach on this land, management may not be in position to prove ownership.

I have advised management to ensure the title is obtained without further delay.

52.3 **Inadequate Staffing**

It was noted that out of the 45 established posts, 23 posts had been filled thereby leaving 22 posts vacant. Inadequate staffing negatively affects service delivery.

I have advised management to liaise with relevant stakeholders to fill the vacant positions.

53.0 **UGANDA WILDLIFE EDUCATION CENTRE YEAR ENDED 30TH JUNE, 2013**

53.1 **Improper Medical refunds**

According to section 2.10.7.1 (b) & (d) of UWEC Standard Operations, Policy, Procedures and Personnel Manual, Management shall identify an institution to handle medical care of
the staff and make decisions on staff that need extra assistance. The designated institution for the treatment of all regular sick staff of the Centre shall, where it is considered necessary refer special cases to other clinics or hospitals.

On the contrary, UGX.8,119,600 was refunded to some members of staff using medical receipts from various clinics and hospitals around Entebbe, Wakiso and Kampala.

In the absence of a designated Medical Institution and Referral Letters from the designated institution, there is a possibility of inflated and improper payments.

Management stated that an attempt to procure a designated medical center failed because of funding constraints. Currently, each staff member is allocated UGX.1,000,000 per year for medical treatment which is claimed upon presentation of original treatment documents and receipts from a medical provider.

I have advised management to identify a particular medical Centre to handle staff medical needs as prescribed in the policy.

53.2 Revenue Shortfall

Out of the budgeted revenue of UGX.2,397,101,000 the trust realized only UGX.2,010,970,217 resulting into a shortfall of UGX.386,130,783 (16%). Budget shortfalls may indicate unrealistic budgeting and/or weak revenue collection practices, and this may cause failure to achieve planned objectives.

Management stated that owing to lower business activity in the economy than expected, budgeted entrance revenues could not be realized. Meanwhile marketing activities as well as new products and services such as giraffe feeding, elephant walks, pier and beach development are being intensified.

I have advised management to always make realistic revenue budgets and put in place effective measures of collecting the revenues. Meanwhile I await outcomes of the management action.

53.3 Land conflict

Management of UWEC is embroiled in a land conflict with individual claimants over ownership of land on plot 12 A Johnson Road, Leasehold Register Volume 3959 Folio 19, Entebbe which previously belonged to the Game department. According to letters availed, this land has been sold off to different people and the current claimants have fenced it off despite the expiry of their five year lease. A complaint lodged to Uganda Land
Commission and the Ministry of Lands has not yielded positive results. This is therefore, frustrating plans by management of UWEC to create a road access and parking for its pier hotel and beach.

In response management stated that the matter was referred to their lawyers to handle and a process of placing a caveat on this land is underway.

I await the outcome of management action.

53.4 Vacant Posts

It was noted that out of 42 established posts, 24 posts (57%) remained vacant at the time of writing this report. Absence of critical staff may result into inefficiencies in the management of the entity.

Management attributed the understaffing to financial constraints.

I have advised management to review staffing needs and recruit staff on priority basis for the efficient running of the center.

54.0 HOTEL AND TOURISM TRAINING INSTITUTE – FOR THE YEAR ENDED 30TH JUNE, 2013

54.1 Change of Basis of Accounting

It was noted that the Institute has in the past been preparing financial statements in accordance with International Financial Reporting Standards but the accounts for the current financial year were prepared using modified cash accounting. Although management stated that this was occasioned by the Accountant General, there was documentary evidence regarding the change and guidance on the process by the Accountant General.

It was further noted that whereas IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires retrospective application\(^1\) of a change in accounting policy, this requirement was not evident in the financial statements prepared by management for the year under review.

Also noted was the following disclosure requirements were not met:

\(^1\) Retrospective application: Adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.
The nature of the change in accounting policy for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected.

The amount of the adjustment relating to periods before those presented, to the extent practicable.

If retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

In view of the foregoing, the change could have resulted in misrepresentation of the Institute’s state of affairs.

Management in their response stated that during 2012/13 the Accountant General issued a financial reporting template which was to be used by all entities including the Institute. It was on this basis that management adopted the same template for uniform reporting and to facilitate consolidation of the financial statements with those of other reporting entities in government.

I have advised management to seek guidance from the Accountant General with a view to ensuring compliance with the requirements of the IAS 8 in this regard.

54.2 Unsupported balances

Receivables and payables balances of UGX.156,840,035 and UGX.1,416,579,493 respectively were not supported with detailed schedules. Meanwhile the receivables figure was not included under note 21. As a result I was not able to ascertain the accuracy of these balances.

Whereas management in their response indicated that the omission had been corrected in the financial statements, there was no proof to this effect.

I have advised management to ensure that the balances in financial statements are adequately supported.

55.0 UGANDA PETROLEUM INSTITUTE KIGUMBA – YEAR ENDED 30TH JUNE, 2013

55.1 Lack of land title

The Institute had 200 hectares of land which was donated to it by the UCC (Uganda Cooperative College) however, there was no evidence that the Institute had obtained a
land title as proof of ownership. There is a risk that the land may be encroached upon without legal protection.

In response, management explained that Land transfer is in process and applications have been dispatched to the Commissioner of Land Administration. I await the outcome of management action.

**55.2 Lack of a prequalified list of suppliers**

According to Regulation 126(6) of the PPDA Regulations, the list of pre-qualified providers shall be updated periodically, where prequalification is for a group of contracts. It was noted that the institute uses the prequalified list of UIRI which had not been updated at the time of audit.

In response, the Accounting Officer explained that the process for updating the prequalified list was on going. I await outcome of management action.

**55.3 Internal borrowing of funds**

Audit noted that UGX.850,000,000 was transferred to UPIK Account from Uganda Industrial Research Institute Research and Development account vide voucher no.DB01/01/2012 to meet costs of prefabrication materials, transport and installations without appropriate authority. Another UGX.450,000,000 was transferred from the UIRI account to UPIK account for carrying out activities of UPIK vide voucher no DB266/05/12 and voucher no DB251.

Though management indicated that refunds had been made, inter borrowing affects the implementation of the planned activities of UIRI. I have advised management to liaise with the Accountant General to streamline the financial operations of the two entities.

**SOCIAL DEVELOPMENT SECTOR**

**56.0 NATIONAL SOCIAL SECURITY FUND (NSSF) - YEAR ENDED 30TH JUNE, 2012**

**56.1 Notice of Assessment for Corporation Tax from URA**

NSSF received a notice of assessment for Corporation Tax from Uganda Revenue
Authority (URA) amounting to UGX.49.7 billion. The liability arose from expenses that URA claimed were wrongly disallowed by the Fund. The Fund objected to the assessment and responded to the matter but by the time of this report, URA had not responded with the final outcome. No provision was made in the financial statements since URA had not informed the Fund of the outcome.

56.2 Unallocated members’ contributions in the migration account

By the time of audit, employee contributions amounting to UGX.14 billion had not been credited to members’ statements, but had been deposited to a separate account “migration account”. There is a risk of the members’ statements not reflecting the correct member’s contributions and the migration (suspense) account increasing.

Management attributed this to either failure by employers to submit members’ schedules concurrently with the contribution remittances or errors in the submitted schedules and further explained that they had started on the enhancement of E-Collection software where the employer schedules will be uploaded directly to the NSSF servers/website by the employer rather than submitting them to the banks. I await the outcome of management’s remedial action.

56.3 Un-secured Loan to related party

The Fund issued an unsecured 10 year loan facility of UGX.15,219,768,000 to Uganda Clays Limited (UCL) in 2010 with a grace period of 2 years. As at 30 June 2013, the loan still stood at UGX.15.2 billion. The repayments that were due in January 2013 were not honored by UCL. It was noted that the facility was being reviewed for possible restructuring and had also been assessed for impairment for purposes of reporting in the financial statements. There is a risk of financial loss to the fund in case UCL fails to repay the loan.

Management explained that the loan extended to UCL was to rescue it from imminent receivership and that the loan terms were being reviewed consistently with the company’s capacity to service. I await the outcome of management’s actions and will review the recoverability of this loan recovery in the subsequent period.

56.4 Weaknesses in the management of members’ contributions

Through review of the members’ accounts, audit noted the following weaknesses in the management of the members’ contributions;
There was no evidence to suggest that adequate reviews were carried out on entries posted to the member’s accounts. For example, UGX.30 million had been transferred from a member’s account to the reserve account in error, although this was later reversed.

There were some members’ accounts with debit balances of up to UGX.250 million due to miss postings. These were subsequently reversed.

For the period 2012/13, there were contributions by different employers for which receipts bearing the same receipt numbers were issued. This was due to system weaknesses.

There is a risk of misstatement of the members’ fund balances and the issuing of receipts bearing the same receipt numbers may result into errors and irregularities. Management explained that controls were to be reviewed to ensure that the error rate is lowered.

I have advised management to ensure that all postings to the members’ accounts are periodically reviewed and to ensure that receipts are identified with unique receipt numbers.

56.5 Contributions not credited

As at 30th June 2013, the fund had contributions for members amounting to UGX.911 whose details had been obtained and the upload process initiated with only approval pending for the amounts to be credited on the members’ accounts. Consequently the members’ accounts were not fairly stated. Management attributed this to missing schedules and staff manpower shortages but explained that the backlog had been progressively cleared, with a balance of UGX.79 million pending.

I have advised management to ensure that all contributions in the ‘pending approval’ category are reviewed and posted to the members’ accounts.

56.6 Long outstanding rent receivables

As at 30th June 2013, there were rent receivable balances of UGX.1.1 billion (Workers House – UGX.0.6 billion and Social Security House – UGX.0.5 billion) that had been outstanding for over 180 days. Further analysis revealed that these were composed of amounts due from private and government entities of UGX 0.39 billion and UGX 0.75 billion respectively. The Fund made provisions for doubtful debtors of UGX 0.45 billion and UGX 0.37 billion in the financial statements in relation to the workers house and the
Social Security House respectively. There is a risk of financial loss to the Fund through uncollected rent.

I have advised management to continuously follow the outstanding debtors to ensure all rent arrears are collected.

56.7 **Security deposit not collected from tenants**

The tenancy agreements between the Fund and its tenants requires the Fund to collect security deposit equivalent to one month’s rent which was meant to cover repair costs in the event of damage to the premises and/or fixtures by the tenant. However, the Fund did not collect the said deposits in the year under review. The Fund risks incurring losses in repairing damages which ordinarily would have been covered by the security deposits. Management explained that it had begun enforcing the clause and as a result 27 tenants had obliged and paid the security deposits and faulted the Government tenants who occupy 76% of space but do not pay Security deposits.

I have advised management to enforce the collection of security deposits from all tenants as provided for in the tenancy agreements.

56.8 **Lack of limits for individual phone costs chargeable to the Fund**

It was noted that phone bills for entitled officers are charged to the Fund in full without assessing the extent of non-business related calls. There is a risk of financial loss to the Fund to the extent of the personal call costs being charged as business related costs. Management explained that it was to review the phone usage policy, and stated that the Fund had already established limits for prepaid users. I await the outcome of the review process of the phone usage policy.

56.9 **Weakness in the procurement and disposal process**

A review of the procurement and disposal processes at the Fund revealed the following;

- There was no signed contract for the security services being offered by Saracen. A loss could be occasioned to the Fund in future if disputes arose between the Fund and Saracen.

Management explained that following terror threats, Uganda Police offered the Very Important Persons Protection Unit (VIPPU) protection to the Fund and Saracen were temporarily engaged pending Police’s commitment on the numbers to be committed
to NSSF protection. Management further stated that conclusion of the procurement process was expected by February 2014.

- The Fund disposed of a plot of land at UGX 650 million had been purchased at the same amount and had a carrying value of UGX 705 million resulting into a loss on disposal of UGX 56 million because it lacked an access road. There was no evidence to indicate that the Fund performed a cost benefit analysis of attempting to gain an access road to the property and the impact thereof on the value of the property.

Management explained that the disposal of land followed due process and the transfer was signed off by the Board Chairman after confirming that the land had no access.

- The board appointed two Board Advisors during the year but there was no evidence that a proper procurement process was followed during recruitment. Audit was only provided with the curriculum vitae of the two Board Advisers.

I have advised the management of the Fund to ensure that contracts are signed for all service providers and to develop policies and procedures for the appointment of Board Advisors.

### 56.10 Discrepancies in Lubowa land that require urgent attention

The fund owns a piece of land measuring 563 Acres at Lubowa but the following were noted arising from the survey done by Geomaps who were engaged by the fund to verify the boundaries of this land;

- A total of 4.764 acres on Plot 1058 block 269 belonging to the Fund had been encroached on with one pillar at one end missing.
- Plot 274, block 269 and Plot 1322 block 269 had their pillars erected beyond the correct boundaries indicating that NSSF had encroached on the adjacent plots by 1.752 acres and 8.283 acres, respectively.

The Fund risks losing its land to the encroachers and conversely, the Fund may be sued for encroachment on other people’s land.

The management of the Fund explained that they had already filed a High Court suit seeking a court order to evict the encroachers and the case was pending hearing in the Land Division of the High Court. Another case was yet to be filed against another encroacher. They further stated that the Ministry of Lands reviewed the Geomaps report and advised that the Funds’ Pillars are within boundary and not encroaching on any land.
I have advised management of the Fund to act on the recommendations made by Geomaps in solving the boundary issues concerning the land at Lubowa.

56.11 **Dealing with service providers with contributions arrears**

Soleh Boneh International (SBI) and Saracen have contributions in arrears which have not been settled yet; these are service providers of the Fund. Dealing with service providers who are not complying with the NSSF Act is indicative of laxity in enforcing compliance and encourages non-compliance.

Management explained that Saracen had agreed with the Fund on a payment plan where NSSF applied invoice payments to the arrears while SBI was at the time under compliance audit review.

I have advised the Fund management to enforce the recovery of the arrears from existing suppliers and to ensure that all potential suppliers are subjected to compliance reviews before being engaged.

56.12 **Lack of a data classification policy**

NSSF does not have a data classification policy and at the very minimum a policy statement on it in the security policy. If data is not classified, important data might not be accorded the right amount of controls to ensure that it is not illegally accessed.

Management noted the anomaly and pledged to include it in the Fund’s security implementation road map to be implemented by the Risk department.

I have advised the management to hasten the development of a data classification policy which should be communicated and implemented appropriately.

56.13 **Lack of detailed risk analysis of employers for compliance audit**

The Fund lacked documented policy/guidelines to be followed by the Compliance unit and the branches while determining employers to be audited. The Compliance Officers in the Branches visited were only aware of the internal factors considered in selection of employers. In the absence of the documented policy/guidelines, the selection of employers for audit may be haphazard and inconsistent at the branches.

Management pledged to streamline and update the Commercial Procedures manual guide with all the external information sources used and also keep on improving the processes.
I have advised management to institute formal risk assessment policy/guidelines detailing all the risk factors that the Fund needs to consider during the selection of employers to be audited.

56.14 **Lack of annual plans for compliance audits**

The Compliance unit had no detailed annual plans to guide compliance audits. Plans were usually done on quarterly and adhoc basis. The branches independently determined which employers to audit, with minimal involvement of the Head Office with exception of those predefined employers where the Head Office is required to be involved by policy. In the circumstances there is no clear road map of which audits are to be carried out each financial year. I have advised the Fund management to develop annual audit plans for the intended compliance audits of employers.

56.15 **Lack of oversight on the activities of the Compliance Unit**

There was no direct oversight exercised by those charged with governance over the activities of the Compliance Unit. For example, there is no committee of the Board of Directors that comprehensively discusses the role and activities of the Compliance unit, discusses and approves the work plan for each financial year, and monitors the progress and results of the audits done by the unit. Consequently, neither is there a sense of accountability by the Compliance Unit nor anyone to provide it with a sense of direction.

I advised that the Board of Directors puts in place measures to enable a comprehensively exercise of oversight over the work of the Compliance Unit.

56.16 **Inadequate documentation and review of compliance audit files**

a) There were no documented audit programs detailing the procedures to be executed by staff while in the field. In addition, there were no adequate working papers on the audit files to evidence the procedures executed, results of the procedures and the conclusions reached. Thus the compliance audit reports issued were not supported by sufficient appropriate audit documentation. In absence of appropriate sufficient documentation, the validity of the audit reports and conclusions reached could easily be challenged and, errors and irregularities might not be timely prevented or detected and corrected by the review process.

b) It was also noted that in most instances field staff documentation was not adequately reviewed and not cross-referenced to the audit report. For instance, the reports that
audit reviewed had errors and inconsistencies ranging from arithmetical inaccuracies while others did not indicate interest due. For example in report for Munyonyo Commonwealth Resort dated 5th April 2012, outstanding contributions of UGX.193,284,515 were reported but the re-computation revealed that the figure total was actually UGX.202,229,700. This could result into issuing audit reports with wrong assessments.

Management explained that all audits above the threshold of UGX.500M are reviewed at Head Office by both the Compliance Manager and by the Head of Commercial before finalization including a review of the scanned source documents as a quality control measure.

I have advised management to develop standardized audit programs and have them approved by senior management for use during the audit field work and to ensure that minimum review requirements are set to ensure that the work done and reports are authenticated.

56.17 Formal criteria for assessing employer’s penalty waiver requests

In accordance with Section 14 (2), the Managing Director may limit the whole or part of any penalty under this section subject to such conditions as he or she may determine. However, there is no policy that defines the “conditions” under which penalties may be waived. Additionally, there are no formal criteria followed by Branch Managers and Compliance Relationship Managers in recommending employer’s waiver requests. The lack of the above could result in unauthorized waivers and/or irregularities.

Management acknowledged that there was no specific policy on waivers but a draft was being finalized for approval. Nevertheless, NSSF was routinely waiving penalties for all employers who fully paid up their arrears regardless of the amount of the penalties involved. I have advised the Fund management to put in place a policy stipulating the conditions under which penalties may be waived as well as the extent of the amounts to be waived.

56.18 Waiver of special contributions and adjustments on assessments

It was noted that the Fund waived special contributions for expatriates working for SBI, Speke Group of Companies and Munyoyo Commonwealth Resort Ltd totaling to UGX.631,119,459 but there was no evidence that exemptions had been granted for
standard/special contributions for the expatriates.

The absence of evidence on file of exemptions granted to SBI, Speke Group of Companies and Munyonyo for standard/special contributions for expatriates could be an indication that the waivers were irregularly granted. I have advised the Fund management to ensure that the waiving of standard or special contributions be controlled and the above waivers to be revisited for possible recoveries. In addition the final assessments and changes thereof should always be adequately supported and documentation filed.

57.0 NATIONAL WOMEN’S COUNCIL - YEAR ENDED 30TH JUNE, 2013

57.1 Failure to classify financial transactions

Appendix 1(2) of the Council’s Accounting Manual outlines accounting codes by which the council revenue and expenditure should be classified.

On the contrary the Council revenue of UGX.701,000,000 was recorded and spent without coding to respective items.

Failure to code revenue and expenditure impairs proper budgeting and appropriation of funds. This may further lead to mischarge of revenue and expenditure.

In response, the Accounting Officer explained that the accounting codes at their disposal are not relevant to the organization and the entity would resort to the Government of Uganda codes in the financial year 2013/2014.

57.2 Funds not accounted for

Income generating grants totaling UGX.12,000,000 disbursed to 4 districts (Bulisa, Kisoro, Amuria and Kayunga), at the rate of UGX.3,000,000 per district were not accounted for. Consequently, I was unable to confirm whether the funds were used for the intended activities.

Management explained that they were working with the District Community Development Officers and District Women Councils to ensure that the funds are accounted. I have advised management to obtain and submit the accountability for verification. In the alternative the funds are recoverable.
57.3 **Lack of Staff Performance Appraisal**

Part II Sec 7 of the National Women Council (NWC) terms and conditions of service require appraisal of staff annually as part and parcel of regular supervision. Contrary to these provisions, it was noted that the Council did not carry out performance appraisal of staff for the last 3 years. In the circumstances, identification of performance gaps and implementation of appropriate strategies could not taken place.

In response, the Accounting Officer explained that all staff of National Women’s Council are employed on three year renewable contract basis. Prior to the end of each contract, staff write to the appointing authority through their immediate supervisors asking for the renewal of their contract.

I advised Management to carry out performance appraisals on an annual basis, as per the terms and conditions of service, to enable improvement of staff performance.

58.0 **NATIONAL COUNCIL FOR CHILDREN - YEAR ENDED 30TH JUNE, 2013**

58.1 **Expiry of Council Term**

Audit noted that the Secretary General had made a submission to the Minister for the Council to be constituted and appointed after the term of office of the previous Council Members expired in December 2011.

However, by the time of writing this report, the Council had not been constituted. Failure to appoint Council Members constrains decision making and the implementation of the strategic functions as outlined in the Act, including approval and presentation of the financial statements for audit.

Management explained that the matter was brought to the attention of the Appointing Authority in October 2011 followed by several reminders but no action was taken and further stated that the Secretariat was making constant follow ups.

I have advised management to continue following up the matter with the Appointing Authority to appoint the Council members for proper running of the Council affairs.

58.2 **Statutory Deductions**
Statutory deductions amounting to UGX.41,640,000 was deducted at source by management (PAYE of UGX.34,230,000 and NSSF of UGX.7,410,000) but not remitted to Uganda Revenue Authority and National Social Security Fund, contrary to Section 123 of the Income Tax Act, Cap. 340 and, Section 14 of the NSSF Act, Cap.222, respectively. There is a risk of the Council being penalized by the two authorities because of noncompliance.

Management explained that the Council had been facing a challenge of budget cuts which hampered the payment of statutory obligations and stated that measures had been taken to pay off the arrears.

I have advised management to ensure that the statutory deductions always remitted to the relevant authorities.

58.3 Inadequate Staffing

The Council has an approved staff structure of 21 employees. However, only 13 (62%) posts were filled leaving a staffing gap of 8. Among the vacancies are the key positions of Deputy Secretary General, Programme Officer Data Management, Internal Auditor and Administrative Officer. Staffing gaps negatively impacts on the Council's ability to deliver on its mandate.

Management attributed the staffing gaps to lack of financial resources to remunerate staff and lack of space to accommodate them. They however, added that negotiations with development partners were in progress to ensure that the gap is reduced and a National Resource Centre built. I await the outcome of the negotiations in this regard.

59.0 NATIONAL COUNCIL FOR DISABILITY - YEAR ENDED 30TH JUNE, 2013

59.1 Non-existence of a Procurement and Disposal Unit

Contrary to sections 30, 31 and 32 of the PPDA Act 2003 the entity lacked a Procurement Unit thereby exposing management to risk of improper procurements. Consequently the procurement of office space for the council at UGX.30,000,000 during the year was not done in a competitive manner.
Furthermore, procurement of health insurance services of UGX 6,720,000 from International Air Ambulance for the council’s employees did not go through the procurement process.

In response, management explained that the Finance and Administration Committee also served as a procurement committee.

I advised management to institute a procurement unit in accordance with the regulations or use the services of the procurement unit at the Ministry of Gender, labour and social Development.

59.2 **Segregation Of Duties**

The concept of segregation of duties requires that no one person should initiate, approve, record, reconcile balances, handle assets and review reports. This is aimed at ensuring reduction of an entity’s operational risks. Although I pointed out this issue in my previous year report, it was noted that the preparation and verification of the payroll and payment of salaries continues to be done by the Head of Accounts. In the circumstances, the council is exposed to a risk of inaccurate reporting due to innocent or deliberate errors.

In their response management undertook to separate and improve the functions.

I await management’s commitment in this regard.

59.3 **Non – existence of an Internal Audit Function and Audit Committee**

It was noted that the council had not put in place an internal audit unit and an audit committee. In the absence of such a monitoring and review mechanism, the achievement of council’s operational objectives is undermined.

I advised management to put in place an internal audit unit and audit committee to improve on the council’s risk management.

59.4 **Lack of a Research Strategy/Policy**

In my previous audit report, I pointed out that NCD lacked a Research strategy. In their previous response Management had committed to develop a Research Strategy. However, at the time of writing this report, it was noted that the Council had developed draft Research Strategy but has not yet adopted the draft as a working document.

In the circumstances, there is a risk of undertaking research in areas that are
inconsistent with the strategic intent of the Council.
In response, management acknowledged the anomaly and promised to put the issue on the agenda for adoption in the next Council meeting to own it as a working document of the Council.
I await management’s commitment in this regard.

60.0 NATIONAL YOUTH COUNCIL - YEAR ENDED 30TH JUNE, 2013

60.1 Outstanding Advances

It was noted that UGX.89,100,000 paid to various National Executive Committee Members to carry out monitoring and evaluation activities in various regions of the country lacked activity reports and accountability. The amount above includes UGX14,400,000 advanced to the secretary of Finance for organizing the International Youth Day celebrations in Arua District in August 2012.
In response the Accounting Officer explained that written communication had been sent to the concerned officers to demand for accountability.
I advised Management to obtain the accountability documents for verification or recover the funds from the concerned staff.

60.2 Non-revaluation of Fixed Assets

IAS 36 requires every entity at the end of each reporting period, to assess whether there is any indication that an asset may be impaired and IAS 16 requires the depreciation method to be reviewed at least annually.
Review of the fixed assets register revealed that all the fixed assets were depreciated to zero. However the Council spent UGX.8,449,378 on the repairs of the vehicles which had been depreciated to zero without subsequent revaluation.
The Accounting Officer responded that the necessary steps are being made to ensure that the council’s assets are revalued as they are still useful to the Council.

I advised Management to revalue the assets in accordance with the accounting standards so as to have a fair representation in the financial statements.

60.3 Irregular Retention of Legal Services
A sum of UGX.13,700,000 was paid to various legal firms for offering services to the council in a court case. However the criteria of retention and/or procurement of the legal firms were not disclosed. Besides, the expenditure was not budgeted for.

Although the Accounting Officer explained that the firm that defended the Council in court was agreed upon by the National Executive Council (NEC), under sub-committee of legal, policy and disciplinary Affairs, the appropriate procurement methodology was not followed.

I advised the management to always follow the procurement methods provided by the PPDA Act and Regulations, 2003.

60.4 **Inadequate Treasury Releases**

Out of the approved recurrent budget of UGX.1,075,000,000, only UGX. 729,384,000 was released by Treasury, resulting into a shortfall of UGX. 345,616,000. Failure to release the approved balance resulted into failure by the Council to implement more than 32% of its planned activities.

I advised the Accounting Officer to always liaise with the Ministry of Finance, Planning, and Economic Development to ensure that all appropriated funds are disbursed timely to enable implementation of planned activities.

60.5 **Nugatory Expenditure**

A sum of UGX.21,500,000 was spent in August 2012 on press releases, a press conference and refunds to invited youths as a result of late cancellation of the National youth conference. The cancellation was attributed to poor communication and disagreements between the organizers.

I advised Management that such wasteful expenditure could be avoided if coordination and communication among the council leaders was enhanced.

60.6 **Lack of Training Policy**

In my previous year’s audit report, I observed that the National Youth Council (Terms and Conditions of Service) Regulations, 2000, require the council to always promote and support staff training for improvement of staff performance and career development within the available resources.
However, it was noted that to date the council does not have a training policy. Lack of training impacts negatively on the productivity of staff. In response management indicated that arrangements were underway to formulate a training policy. I advised Management to establish a staff training policy for all the employees of the Secretariat as required by the regulations without further delay.

60.7 **Absence of Board of Survey Report**

During the year under review it was noted that the Council did not constitute a board of survey contrary to Para.6.6.1 of the Treasury Accounting Instructions. This is further amplified in the Financial and Accounting Regulation 102 which requires the Board of Survey to be convened by the Accounting officer to examine the cash, Stores and bank balances in the hands of Head of Finance, Head of Department, Revenue Collectors, Cashiers and Imprest holders, after the close of business on the last business day of each financial year.

In response management acknowledged lack of board of survey during the financial year under review but promised to correct this in the next financial year.

I informed the Accounting Officer that lack of board of survey undermines the reliability of the account balances presented in the Financial Statements.

61.0 **NATIONAL LIBRARY OF UGANDA FOR THE YEAR ENDED 30TH JUNE 2013**

61.1 **Use of Two Types of Charts of Accounts**

A review of National Library of Uganda financial records revealed use of two types of chart of accounts. Whereas the budget for the financial year 2012/13 was classified using the Government of Uganda chart of accounts the expenditure was classified using different codes for example for Committee and Boards the GOU budget code is 221106 while the NLU expenditure code is EX1.

As a result, analysis of the budget and actual performance of the entity is rendered difficult.

Management in their response explained that the codes used in the expenditure records are from the old government system and those used in the budget are the current ones used by the Treasury. Meanwhile, they are going to start using the Treasury codes for all
NLU financial records.
I have advised management to use the Government of Uganda Chart of Accounts in classifying the items in the budget and financial records.

61.2 **Lack of Finance and Accounting Manual**

The entity lacks an Accounting manual that would guide the approval, recording and classification of financial transactions.

Management explained that they have a draft manual which has not been approved. Management is advised to develop expedite the approval process of the finance and accounting manual.

61.3 **Lack of Segregation of Duties in Accounts**

It was noted that key accounting functions such as preparing payment vouchers and cheques, imprest management, posting the cashbook and maintaining the General ledger are handled by a single person who is also the Senior Accountant. The lack of segregation of duties exposes the entity to risk of errors and/or fraud remaining undetected over a long period of time.

Management explained that the anomaly was as a result of dismissal of the accounts assistant due to a fraud related case. However, an advert for the position was put in the Monitor of 28th February 2014 and interviews would be carried out in the next two weeks.

I have advised management to expedite the recruitment process.

61.4 **Lack of Human Resource Function:**

The national library of Uganda does not have a Human Resource function in its structure and as such there is no guidance with regard to staffing needs, recruitment, job descriptions, staff appraisals, training, promotions, rewards and punishment.

Management in their response explained that they have presented to the Ministry of Gender, Labour and Social Development a proposed structure that includes a Human Resources Officer. References documents included the National Library Terms and Conditions of Service, National Library Personnel Manual, National Library Proposed Staff Structure.
I have advised management to ensure that a human resource function is put in place.

61.5 **Cancelled Cheques**

During the year under review the entity cancelled 19 cheques in the sum of UGX.61,485,880. Frequent cancelation of cheques is a sign of improper financial management and a waste of accountable government stationery. It may also imply weak internal control systems in regard to payments.

Management noted the observation and pledged to create a register for cancelled cheques and ensure that they are not cancelled without proper authorization.

Management has been advised to streamline and strengthen the controls in regard to cancellation of cheques.

61.6 **Outstanding Office Rent**

The National Library of Uganda is housed in leased premises on Plot 11, Bombo road. Scrutiny of the Tenancy Agreement between the registered Trustees of Patidar Samaj and the National Library of Uganda revealed that the entity owed the Landlord a sum of UGX.132,900,000 as at February 2014. It was further noted that the tenancy agreement expired in December 2011. Besides there was no valuation report from the Chief Government Valuer for the rent of UGX.5,000,000 per month excluding VAT.

In the circumstances, there is a risk of litigation over rent defaulting which may result into additional costs to the entity.

Management explained that the issue of outstanding rent has been brought to the attention of the Permanent Secretary, Ministry of Gender, Labour and Social Development who directed that UGX. 50,000,000/- be paid every quarter to the land lord until the arrears are fully paid. In addition, it was decided that the rent shall be paid directly by the Ministry to the land lord, with effect from 1\textsuperscript{st} July 2014. UGX.50m received during the second quarter and UGX.40m received during the third quarter of this financial year, has already been paid to the land lord to offset the arrears.

Management is advised to provide valuation reports for the premises and liaise with relevant authorities to settle the rental charges appropriately.

61.7 **Non-Remittance of Statutory Deductions.**
Contrary to Section 14 of the NSSF Act, the entity made deductions of UGX.21,261,496 as contributions to NSSF but never remitted to the institution. There is risk of attracting penalties for the anomaly.

Management in their response explained that the non-remittance of NSSF contributions is due to the fact that the National Library of Uganda receives limited funds to cover wages and the statutory obligations. Management also stated that this has been brought to the attention of the Permanent Secretary, Ministry of Gender, Labour and Social Development and pledged to keep engaging with the relevant authorities.

Management is advised to remit and account for the funds in accordance with the NSSF Act.

61.8 **Lack of an IT Strategy**

Just as in the previous period, it was observed that NLU did not have a documented IT strategy in the period under review. In a related development, it was noted that NLU does not have an IT security policy. The absence of the IT strategy implies that management may not easily take strategic decisions regarding investment in IT.

Management explained that this was expected to be developed by an IT expert whose position exists in the organization structure but it has not yet been filled because of lack of funds at the moment. However, in the meantime, they will use the National Information Technology Authority Document and adjust it to the National Library needs.

Management has been advised to ensure that a documented IT strategy and an IT security policy are put in place.

62.0 **UGANDA NATIONAL CULTURAL CENTRE**

62.1 **Failure to submit signed Accounts**

Section 6 of the Uganda National Cultural Centre, 1959 requires the Board of Trustees to prepare and submit accounts to the Auditor General for auditing at the end of each financial year. It was however noted that the management did not comply with the above requirement as there were no signed financial statements submitted for audit.

It was therefore not possible for me to plan and audit the affairs of the Centre as at 30th June, 2013 and results of its operations from year then ended.
62.2 **Funds not accounted for**

Advances totalling UGX.140,983,577 paid to various officers to implement various UNCC activities had not been accounted for at the time of audit, contrary to paragraph 215 (a) Part I of the TAI, 2003. In the absence of the necessary accountability documents, I could not confirm whether the funds were put to the intended use.

Management stated that the concerned individuals had been asked to provide the accountabilities.

I have advised management to ensure that the funds are accounted for. In the alternative the funds are recoverable.

62.3 **Tax Remittances not acknowledged**

VAT totalling UGX.110,962,830 purportedly paid to URA lacked acknowledgement receipts. There is a risk of non-remittance of such funds which exposes the entity to the risk of penalties. In response management stated that engagements with URA were underway to ensure all the receipts are obtained.

I have advised management to ensure that the acknowledgement receipts are obtained and submitted for verification.

62.4 **Revenue Shortfall**

Out of the revenue budget of UGX.1,921,458,000 the centre realized only UGX.1,258,682,379 (66%) resulting into a shortfall of UGX.662,775,621(34%). Budget shortfalls may imply unrealistic budgeting and /or laxity in collecting the revenues and this impedes the attainment of the Centre’s objectives.

In response management stated that the budgeting process had been streamlined to ensure that there is a realistic projection of revenue in future.

I have advised management to put in place measures that address the causes of under collection of revenue.

62.5 **Inadequate controls over Accountable Stationery**
Best practices for starts management require establishment of adequate controls over procurement, storage and issue of all Accountable Stationery. However it was noted that there were weak controls over receipts used at UNCC for example, there were no stores requisitions and issue vouchers raised prior to issue of the receipts books. There was also no record of all Accountable Stationery items procured and their storage was poorly done.

The failure to have effective controls over the procurement, storage and issue of receipts exposes the Centre to loss of revenue. In response management stated that controls over proper management of Accountable Stationery had been put in place.

I await the outcome of management action.

AGRICULTURE SECTOR

63.0 COTTON DEVELOPMENT ORGANIZATION (CDO)- YEAR ENDED 31ST OCTOBER 2013

63.1 Follow Up of Prior Year Audit Recommendations

The status of the prior year audit recommendations is summarized in the table below:

<table>
<thead>
<tr>
<th>Audit Issue</th>
<th>Recommendation</th>
<th>Current Status</th>
</tr>
</thead>
</table>
| 1.1 7.13 Debtors’ Management
The financial statements reflect a total of UGX.7,601,153,609 as outstanding debtors as at 31st October 2012. Out of this, an amount due from Government (Min of Finance, Planning and Economic Development) of UGX.5,936,615,223 has remained unrecovered. Further to this, the report of the Committee on Commissions, Statutory Authorities and State Enterprises (COSASE) on the performance of CDO from 1999 to 2008 recommended that the Ministry of Finance, Planning and Economic Development to seek Parliamentary approval for the debt to be cleared before interest becomes compounded. No action was found to have been taken in line with the recommendation. | I urged the Accounting Officer to continue pursuing the implementation of the COSASE recommendation with the responsible Ministry. | Parliamentary approval for the debt not yet secured. Not concluded yet. |
64.0 COORDINATING OFFICE FOR THE CONTROL OF TRYPANOSOMIASIS IN UGANDA (COCTU), 2013

64.1 Budget Performance

It was noted that out of UGX.1,197,006,000 budgeted for year, UGX.960,707,000 was received resulting in a shortfall of UGX.236,299,300. As a consequence, management could not undertake the recruitment of seven (7) officers for the Council. These included an Economist, Procurement Assistant, Internal Auditor, Monitoring and Evaluation Officer, Data Entrant, Stores Assistant and Human Resource Officer. Lack of adequate staff affects the performance of Council.

I urged the Accounting Officer to continue pursuing the matter with the Ministry of Finance, Planning and Economic Development to ensure that resources for planned activities are secured and activities implemented accordingly.

64.2 Lack of Strategic Plan

It was noted that the entity does not have a strategic plan to guide it in achievement of its short and long term objectives.

The Accounting Officer explained that a National Tsetse and Trypanosomiasis plan had been prepared and it was awaiting Council approval.

The Accounting Officer was urged to ensure the process is expedited.

64.3 Lack of IT Strategy

COCTU invested in Information Technology (IT) including computerization of some of the financial operations and development of a data base for all other non-accounting activities. However, it was noted that it has neither developed an IT strategic plan nor recruited a qualified IT personnel to assist in the management of IT resources, training of personnel and maintenance of the IT resources. Furthermore; the entity does not regularly back up its accounting data.

The Accounting Officer explained that consultation had been made with Ministry of Information Communication and Technology to formulate an IT Policy for the entity.
through techno brain.

The results of the above action are awaited.

64.4 **Absence of Internal Audit Function**

It was noted that the Institution does not have an internal audit department to conduct reviews on activities implemented by the entity and assess the effectiveness of the internal controls.

The Accounting officer explained that the process of recruitment had been initiated but the available resources in the budget could not fund the activity. He promised to pursue the matter in the next financial year.

I urged the Accounting Officer to ensure that resources are sought to have this important function put in place.

65.0 **UGANDA COFFEE DEVELOPMENT AUTHORITY YEAR ENDED JUNE 2012**

65.1 **Un harmonized chart of accounts**

Treasury Accounting Instructions Part 1-Finance gives the formats for the chart of accounts to be adopted by government of Uganda and its Agencies. However, it was noted that the Authority has not yet adopted Government of Uganda Chart of Accounts yet the entity is a vote and receives releases from consolidated fund. I explained to management that failure to harmonize its chart of accounts creates ambiguities in analysis of performance.

Management explained that the office of the Accountant General was engaged and an officer was assigned to assist in the harmonization. The exercise is in progress.

I await the outcome of the above action.

65.2 **Absence of Board of Directors**

UCDA Act provides for the Authority to have a Board of Directors, which shall be the governing body of the Authority to oversee the operations. It was however, noted that
the Authority was operating without a Board for almost 1 year which creates lack of
guidance in policy and strategic matters. Absence of the Board poses a high risk in
implementation of the strategic plan and fulfillment of the authority’s mandate.

Management explained that the Minister had constituted the Board and presented it to
Cabinet for approval. The outcome is awaited.

65.3 **Inconsistencies in Board of survey and the Accounting date**

Chapter 6 (7) of the Finance and Accounting manual of the Authority provides for
management to conduct an annual stock-taking survey to determine the locations and
other particulars of fixed assets and whether they are in agreement with the entries in
the fixed assets register. The exercise was carried out on 30th June, 2013 and not on
30/9/2013, which is the accounting date of the authority. The overlap of 3 months may
lead to misrepresentation of balances as at the end of the Authority’s accounting period.

Management explained that the Office of the Accountant General was engaged and it was
agreed that due to the need to report to Government at each end of the government
fiscal year, it was advised to carry out two boards of survey. Management further
indicated that a request to the Office of the Accountant General was made for the
nomination of officers to carry out the board of survey as at 30th September, but this was
not done.

I advised management to follow up the matter with Accountant General and have the
issue resolved.

65.4 **Inspection**

Field inspection for the purchase and distribution of coffee seedlings was carried out from
16/2/2014 to 28/2/2014 in selected districts that included Zombo, Nebbi, Iganga, Bugiri,
Mayuge, Rukungiri, Kanungu, Kabale, Lwengo, Masaka, Rakai, Pader, Gulu, Mbarara,
Bushenyi, Ntungamo, Kasese, Bulambuli, Jinja, Kamuli and Kyegegwa and below are the
findings:

65.4.1 **Lack of guidelines for distribution of seedlings**

The distribution of planting materials is handled mainly by the politicians through their
agents without clear guidelines. This has led to unfair distribution of materials to the farmers at the grassroots. Most of the planting materials distributed by different groups had dried up as most of these farmers lacked technical advice. The most affected regions being Zombo, Nebbi, Iganga, Bugiri, Mayuge, Rukungiri, Kanungu, Kabale, Lwengo, Masaka, Rakai and Kalungu. This meant that these districts did not benefit from the system used by UCDA which could have led to loss of public funds.

Management explained that improvements are being put in place where by the applicant will sign an MoU with the Authority and as such will be committed to the conditions of allocation and distribution of coffee seedlings.

I advised management to revise and record the system of allocating and distribution of planting materials for effective service delivery and ensure there are clear guidelines in place to aid the distributors of the seedlings.

65.4.2 Inadequate supervision, monitoring and technical advice to farmers

The authority provides transport and allowances to technical officers to provide technical advice to farmers. However, it was noted that the officers at the regions do not reach out to all farmers to supervise, monitor and give technical advice. The farmers therefore lack knowledge on spacing of coffee planting and planting the recommended type of seedlings. The affected districts as per the inspections carried out included; Zombo, Pader, Nebbi, Gulu, Iganga, Mayuge, Kanungu mostly in the areas of Kihiihi sub-county, Kayembe village and Lwengo district sub-county Kyazanga. The inadequate technical advice hinders fulfillment of the organization’s objectives and affects performance.

Management explained that some outreach methods such as radio programmes, provision of printed materials, farm field schools, farmers training workshops/seminars and collaboration with NAADS and sub-county officers were being used to cover over 1.5 million households. Resources to support further recruitment are also being sought.

I urged management to continue seeking more ways on how to provide the required outreaches to the farmers.

65.4.3 Purchase and distribution of seedlings-UGX.1,1568,000,000

During the year, the Authority purchased 3,860,000 seedlings worth UGX.1,158,000,000
from coffee nurseries of private farmers and distributed to coffee farmers. It was noted that there was no proper system followed right from purchase to distribution of seedlings. The authority delegated the exercise to the nursery operators and political assistants in the coffee areas/villages which seems to have created a loop hole in the distribution of seedlings and computations of payments to the nursery operators. Some farmers in Iganga and Bugiri received seedlings which were not ready for planting while an estimated 30% seedlings dried up.

Management explained that the Authority obtained technical advice from PPDA resulting into an accredited system for procurement of seed and seedlings. This is hoped to resolve the issue regarding the purchase and distribution of coffee seedlings to farmers.

The outcome of the above action is awaited.

65.4.4 Understaffing at regional offices

It was observed that coffee activities are managed by UCDA technical staff at the 5 (five) regional branch offices across the country.

It was noted that the regional offices were understaffed and could not fully manage the areas allocated to them. Details in table below:

<table>
<thead>
<tr>
<th>Name of region</th>
<th>No of districts</th>
<th>No. Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Region</td>
<td>18</td>
<td>6 technical staff</td>
</tr>
<tr>
<td>Northern region</td>
<td>15</td>
<td>5 technical staff</td>
</tr>
<tr>
<td>Western region</td>
<td>14</td>
<td>5 technical staff</td>
</tr>
<tr>
<td>Central region</td>
<td>17</td>
<td>6 technical staff</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

In addition, the officers were not properly facilitated with vehicles to assist them in the monitoring and supervision exercise. Each officer according to the deployment list handled four districts with the help of one motor cycle yet most areas had poor road network.

Management explained that a board approval was obtained in the year of audit where 11 technical staff were recruited. In addition, management promised to continue improving
and enhancing service delivery to farmers.

I urged management to continue to find ways of facilitating the staff and increasing the staff number at the grass roots.

66.0 DAIRY DEVELOPMENT AUTHORITY (DECEMBER 2012)

66.1 Mischarge of expenditure

A review of the Authority’s expenditure revealed that UGX.709,967,100 was not charged on the appropriate budget lines. The practice undermines the importance of the budgeting process and misrepresents the reported figures in the financial statements.

The Accounting Officer acknowledged the mischarges and explained that they were due to the OBT, a challenge created during implementation of the budget since DDA was a new user. I urged the Accounting Officer to always seek for the relevant authority to re-allocate the funds.

66.2 Funds not accounted for

A total of UGX.25,068,160 paid out to staff either in cash or deposited on their individual personal accounts were not accounted for as indicated in the table below:

<table>
<thead>
<tr>
<th>Item of expenditure</th>
<th>Amount paid (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imprest cash payments</td>
<td>10,212,960</td>
</tr>
<tr>
<td>Other cash payments (Travel Allowances)</td>
<td>14,855,200</td>
</tr>
<tr>
<td>Total</td>
<td>25,068,160</td>
</tr>
</tbody>
</table>

In the absence of the accountability documents, the purpose for which funds were used could not be ascertained.

I urged the Accounting Officer to institute recovery measures from the officers concerned in the event of failure to obtain the accountability documents in question.

66.3 Unaccounted for revenue collections

A review of the reconciliation of collections/receipts and banking to Stanbic Bank account
revealed a shortfall of UGX.4,000,000. Although the Accounting Officer indicated that the bank-slips in question were available, by the time of compiling this report, all the slips had not yet been provided.

I advised the Accounting Officer to ensure that recovery measures are initiated from the officers concerned in the event of failure to obtain the relevant bank slips in question.

66.4 Procurements

66.4.1 Irregularities in Letter of Credit for supply of milk cans

A total UGX.84,750,000 was deposited on the letter of credit (LC) account opened in favour of Ms Out Media International Ltd for the supply of milk cans during the financial year. By the end of the financial year, it was noted that there were delays in the performance of this LC because of failure by the supplier to deliver within the set timeframe. The contract was finally awarded to SNOWMAN (U) being the second best evaluated bidder but the number of milk cans to be delivered reduced from 500 to 430 cans mainly due to price revision. It was however noted that management did not charge liquidated damages to Ms Out Media International Ltd contrary to the provisions in the contract. I explained to management that failure to enforce the provisions of the contract may cause financial loss to Government.

Further, verification indicated that only 407 instead of 430 cans were distributed to beneficiaries leaving 23 milk cans worth UGX.4,533,140 un accounted for. These cans were not traceable in the DDA stores.

I advised the Accounting Officer to always enforce the provisions of the contract and account for the un-distributed cans.

66.4.2 Procurement files not presented for audit

Five (5) procurement files with an estimated value of UGX.144,256,395 were not presented for audit. In the absence of the procurement files, it was not possible to ascertain whether the respective procurements were conducted in accordance with the PPDA laws and regulations.

I urged the Accounting Officer to always ensure that procurement files are maintained as required by the regulations.
66.4.3 Procurements not properly accounted for

It was noted that items worth UGX.405,547,829 procured by the Authority were not supported by the relevant documents such as PP Form 20, Local Purchase Orders (LPOs), Invoices and Goods Received Notes (GRNs) to confirm their authenticity. Similarly, the store records were not maintained to ascertain utilization/issues out of the store. Further, the Authority has no allocated officer to manage the stores.

The Accounting Officer explained that the position of a store keeper in the new organization structure is being considered; approval of which will be sought from the Board.

I urged the Accounting Officer to ensure that the process of having a store keeper in place is expedited and also put to account the procurements mentioned above.

66.4.4 Appointment of Contract Managers

Two contracts of total value UGX.338,384,678 for the rehabilitation of milk collection centres in Kaberamaido and Serere were executed without contract managers contrary to PPDA Regulation 259. Failure to appoint contract managers poses risks of non-performance and timely monitoring of contractors.

The Accounting Officer acknowledged the anomaly and promised to ensure that all future contracts have contract managers.

66.4.5 Lack of IT Strategy

Good practice requires entities to develop Information Technology (IT) strategies to guide them on the type of hardware or software to acquire; quantity, allocation and safety of equipment and IT resources, training of personnel and maintenance/replacement of those IT resources. However, despite the investment in IT related activities, management has neither developed an IT strategic plan nor recruited qualified IT personnel.

There is a risk that IT operations may be compromised due to lack of adequate safeguards on the IT facilities.
The Accounting Officer explained that the recruitment process of the IT Specialist had just been initiated. I urged the Accounting Officer to ensure that the IT strategy is developed and also expedite the IT recruitment process to safeguard the IT investment.

66.4.6 **Absence of important policies and manuals**

Best practice requires entities to develop various policies and procedural manuals to guide them in their daily operations. It was noted that in 2011 the Authority developed Financial and Accounting Policies and Procedures Manual, which among other things provided for asset management and debtors/creditors management. However, at the time of reporting, the document had not been approved by the board to authenticate it for use. Furthermore, management had not developed a number of important policies such as fraud policy, risk management manual and training policy to help in the day to day running of the Authority.

Lack of documented policies exposes the Authority to potential risks which may not be easily identified, measured and mitigated hence exposing the Authority to crisis management.

I advised the Accounting Officer to ensure that the manuals developed are approved by the board.

66.5 **Failure to update the Fixed Assets Register**

The Authority’s Financial and Accounting Manual requires that a Fixed Assets Register (FAR) shall record the name of the asset, description of the asset, physical location, asset number and serial number, acquisition or donation date, cost or value of the donation. However, a review of the Authority’s fixed assets register maintained revealed the following anomalies:-

- The FAR did not indicate the required headings such as cost, accumulated depreciation and current year’s depreciation charge.

- Some purchases made during the year such as the laboratory equipment worth UGX.38,218,342, enforcement inspection tools worth UGX.7,316,000, and television set worth UGX.4,760,000 were not posted in the Fixed Assets Register.
Absence of complete information in the FAR does not allow for effective management and monitoring of the assets of the Authority. It also makes it difficult to ascertain the completeness and existence of fixed assets and their related balances which has a direct effect on the financial statements.

The Accounting Officer explained that omission of enforcement tools and TV sets from the Assets Register was regretted.

I advised management to always update the FAR whenever there are new procurements made in accordance with the requirements of the Authority’s Financial and Accounting Manual.

66.6 **Long outstanding debtors - Rent arrears UGX.109,129,800**

A review of the entity’s tenancy files/agreements and Board Minutes revealed that the tenants had specific timelines in which to perform their obligations of paying rent. It was however noted that some clients defaulted in making timely payments thereby resulting into arrears of UGX.109,129,800 as detailed in the table below:

<table>
<thead>
<tr>
<th>Clients</th>
<th>Amount Due as at May 2013 (UGX)</th>
<th>Location Of Property</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIRAMA foods &amp; Dairy</td>
<td>93,600,000</td>
<td>Entebbe</td>
<td>The tenancy is for a period of 7 years effective 1/12/2009 at a sum of US$ 2000 p.m payable 3 months in advance and subject to review after five years.</td>
</tr>
<tr>
<td>Uganda Telecom</td>
<td>8,731,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soroti MMC</td>
<td>3,598,000</td>
<td>Soroti</td>
<td></td>
</tr>
<tr>
<td>Nabiswera MCC</td>
<td>3,200,000</td>
<td>Nakasongola</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>109,129,800</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There is a risk that the outstanding amount may never be recovered considering that these amounts have been outstanding for a long time and the debt continues to grow.

The Accounting Officer explained that management of the Authority is in the process of taking legal action on the defaulters.

The above action is awaited.

67.0 **NATIONAL ANIMAL GENETIC RESOURCE CENTRE AND DATA BANK YEAR**
67.1 Dormant bank accounts

The centre had three bank accounts that had remained dormant for more than 3 years with balances worth UGX 20,261,782. At the time of writing this report, management had not taken steps to either close the accounts or reactivate them if needed for future use. Details of the bank accounts in table below:

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Amount (UGX)</th>
<th>Purpose of the account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanbic Bank Jinja</td>
<td>10,013,112</td>
<td>Collection Account for Njeru stock farm</td>
</tr>
<tr>
<td>Stanbic Bank Fortportal</td>
<td>1,189,272</td>
<td>Account for Rubona stock farm</td>
</tr>
<tr>
<td>Barclays Bank Kitoro</td>
<td>9,059,398</td>
<td>Collection Account</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,261,782</strong></td>
<td></td>
</tr>
</tbody>
</table>

Dormant accounts could be used as conduits for irregular transactions and besides the funds locked up cannot be put to use.

Management explained that inauguration of a new board was being awaited to address the matter. The action is awaited.

67.2 Non Tax Revenue shortfall-UGX 945,106,240

It was noted that UGX 670,491,240 was collected in NTR against the budgeted amount of UGX 1,615,597,480 leaving UGX 945,106,240 un collected which translated into (58%) underperformance. As a result of the under-collection, the following activities were not implemented:

<table>
<thead>
<tr>
<th>Stock Farm</th>
<th>Activities not done during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ruhengyere field station- Mbarara.</td>
<td>• Beef cattle cross-breeding programs in Ankole and Boran cattle were not fully done.</td>
</tr>
<tr>
<td></td>
<td>• Dairy cattle cross-breeding programs in which Ankole cattle were to be crossed with Jerse, Holstein Friesian and guemsey cattle to produce cattle with higher milk yields was not done.</td>
</tr>
<tr>
<td></td>
<td>• The conservation of the black Mubende and spotted Mubende goat the programme has not fully taken place.</td>
</tr>
<tr>
<td></td>
<td>• The indiscrimination crosses and Mubende goats with boer goat to produce high performance goats for farmers was not done.</td>
</tr>
<tr>
<td>Stock Farm</td>
<td>Activities not done during the year</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Rubona farm - Kabarole      | • The production of breeding stock of pure Friesian and Ayrshire breeds was at low pace.  
                                 • To offer placement opportunities for students of agricultural sciences in need of hands on experience (Not achieved)  
                                 • No renovation of infrastructure; buildings for houses for staff.  
                                 • No water troughs constructed for the cattle at the farm.                                                                                                           |
| Nshaara Ranch – Kiruhura    | • De-silting valley dams to provide water at all times was not done.  
                                 • The high breed of exotic goat breed for export to middle-east was not introduced.  
                                 • The importation of Galla from Kenya for multiplication and give to farmers was not done.  
                                 • The ranch was to be a demonstration centre for modern sustainable ranch management practices for farmers in the region. This is not yet achieved.  
                                 • Construction of buildings at the ranch was not done.                                                                                                           |
| Njeru stock farm – Buikwe   | • The replacement of the existing dairy herd with high producing Friesian and brown Swiss cattle was not yet fulfilled.  
                                 • The open nucleus breeding program was not re-established and undertaken in combination with other breeders in the area.  
                                 • The piggery was not expanded with a new breeding program developed so that the centre stocks with appropriate pig breeds.  
                                 • The goats to be transferred to Rubona where there is a better browse material was not done.  
                                 • The repair of the milking machines and other milk processing equipment to be installed to enable milk processing on farm was not done.  
                                 • Under a public Private partnership (PPP) with Tata investments; an instant coffee factory on 50 acres of land has not been established. |
| Kasolwe stock farm.         | • To transfer 200 short horn Zebu cattle to Aswa ranch and all the goats to be transferred to Maruzi ranch was not done.  
                                 • To establish a demonstration centre for cage fish farming not done.  
                                 • The farm has not yet received 30 breeding heifers of jersey breed for multiplication.                                                                                               |
| Maruzi ranch – APAC         | • The repair of staff houses, administration block and labour lines was not implemented.  
                                 • The erection of a perimeter fence and night paddocks were not done.  
                                 • The transfer of goats from Kasolwe to Maruzi was not done.  
                                 • The facilities for fish breeding and initiation of fish breeding programs were not established.                                                                                             |
| Aswa and Acholi Ranches     | • There was no transfer of 400 east African small Horn Zebu cattle to the ranch.  
                                 • The school for Ranch managers and a farmer resource, demonstration centres were not established in the area.  
                                 • Large scale commercial ranching and conservation and improvement of local indigenous poultry were not established.                                                                 |
### Stock Farm

<table>
<thead>
<tr>
<th>Activities not done during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulago stock farm.</td>
</tr>
<tr>
<td>- The demarcation of the farm into paddocks was not done.</td>
</tr>
<tr>
<td>- The construction of water troughs was not done.</td>
</tr>
<tr>
<td>- Construction of milking shed was not done.</td>
</tr>
<tr>
<td>- The repair of dip tank was not done.</td>
</tr>
<tr>
<td>- The construction of calf pens was not done.</td>
</tr>
</tbody>
</table>

Management attributed the revenue collection shortfall to less property income, breakdown of the Liquid nitrogen plant that affected semen sales, little interest in training and long draughts which resulted in low sales of animals and their products.

I advised management to develop appropriate strategies aimed at diversification of revenue collections.

### 67.3 Lack of cash books at stations

Stock farms are financed through revenue from sale of cows, rent, animal products and funds from the centre and accordingly spent according to budgets. However, it was noted that the stock farms operated without cash books where daily revenue collections and expenditures should be posted making it difficult to ascertain how much was collected and spent at a particular stock farm.

Management explained that the lack of the cashbooks at the stations was due to inadequate staffing. The matter will be put before the board to have the staffing problem addressed as soon as it is in place.

I urged management to prepare books of accounts as recommended by TAIs.

### 67.4 Human resource management

**Inadequate organizational structure**

It was noted that NAGRC operated without an appropriate organization structure contrary to sec (19) (e) of the Animal Breeding Act. As a result, some crucial posts like Director Finance and Administration and Cashier were not established. Furthermore, the structure provided for one (1) internal auditor which is not ideal for the scope of works that includes verification, inspection and stocktaking exercises at all ranches/farms spread across the country.

Management explained that the anomaly will be rectified by the Board of Directors which
is about to be put in place. The action is awaited.

67.5 **Lack of a Board of Directors**

Sec 17(1) of the Animal Breeding Act provides that the governing body of the centre shall be a Board of Directors appointed by the Minister. However, I noted that NAGRC & DB operated without a Board during the year. As such there is a risk that guidance on policy matters and implementation of the centre programs/activities may not have been undertaken optimally. The accounting officer explained that the formation of a new Board was in the final stages.

I urged management to follow up the matter with the authority to have the board put in place.

67.6 **Lack of titles**

During the review, it was noted that NAGRIC & DB controls various pieces of land without titles which creates ownership challenges. Details of the various pieces of land whose titles are not fully secured are in table below:

<table>
<thead>
<tr>
<th>Location</th>
<th>Status</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Njeru</td>
<td>Titled</td>
<td>Encroached by Njeru Town Council</td>
</tr>
<tr>
<td>LES</td>
<td>Titled</td>
<td>To be shared on a 50:50 basis between CAA and MAAIF(NAGRC).</td>
</tr>
<tr>
<td>Ruhengere</td>
<td>Titled</td>
<td>Some encroachment by the Church of Uganda Kayonza</td>
</tr>
<tr>
<td>Sanga</td>
<td>Surveyed and has a deed plan for 1 sq mile</td>
<td>One half square encroached on by Captain Bashaija. Title for Captain cancelled. Vacation by the Captain needs assistance from the Police.</td>
</tr>
<tr>
<td>Nshara</td>
<td>Titled</td>
<td></td>
</tr>
<tr>
<td>Lusenke</td>
<td>Needs survey</td>
<td>Title for Uganda Beef Association who had encroached on 530 acres cancelled.</td>
</tr>
<tr>
<td>Bulago</td>
<td>Need survey</td>
<td></td>
</tr>
<tr>
<td>Maruzi and Aswa</td>
<td>Titles need to be transferred into the names of NAGRC because they are in the names of Uganda Livestock Industries(ULI)</td>
<td></td>
</tr>
</tbody>
</table>

I explained to management that this may lead to loss of the land through theft and encroachment resulting into claims and compensations to third parties.
Management explained that steps are being taken to get all the documents for legal ownership from the mother Ministry and other agencies. The outcome of the management efforts is awaited.

67.7 **Activity advances not accounted for**

UGX.8,496,000 paid out to various officers for field activities remained unaccounted for as at the time of writing this report. In the circumstances, I could not confirm that the funds were put to their intended purposes.

I advised the accounting officer to ensure the funds are fully accounted for or consider instituting recovery measures on the responsible officers.

67.8 **Inspection of farms/ranches**

As part of the audit, inspection of the stock farms/Ranches covering Lusenke, Bulago, Njeru stock farm, Kasolwe, Maruzi, Nshara, Sanga, Ruhengyere and Rubona Field stock farms was carried out in January 2014 and below are the findings noted:

67.8.1 **Cross cutting issues**

i) **Dilapidated state of farm infrastructure**

It was noted that all farms had a problem of dilapidated structures and notable among them was Lusenke that had condemned and overdue structures for demolition as indicated below:

| Even in this state this block was still being used as residences. | Cracked walls of staff quarters. |

At Bulago Stock Farm; the structure that houses the farm manager’s office and stores were also noted to be on a bad state as indicated below:
I explained to management that there is a risk that the structures could collapse any time which is risky to human life.

Management explained that the situation arose due to lack of funds but indicated that plans are underway to apply for force on account and if approved by PPDA works will commence.

The action by management is awaited.

ii) **Lack of office imprest**

It was noted that all the farms are not provided with office imprest to carry out daily operations such as photocopying, typing reports, transport, telecommunication, stationary and water collection. It was further noted that the only funds sent to the farms is for bush clearing. Lack of imprest is likely to affect the office operations.

I advised management to consider availing imprest funds to enable the farms handle day-to-day activities.

iii) **Lack of transport**

It was observed that all the farms lacked transport to facilitate movements for farm activities. It was explained that sometimes the farm managers spend personal money in order to carry liquid nitrogen by public means which is risky to other passengers in case of gas leakage. For example at Lusenke which operates on an Island due to lack of water craft and insufficient transport, the manager cannot carry out effective surveillance on the 60 acres of land.
I advised management to consider securing transport logistics for the farm.

iv) **Shortage of staff**

It was noted that most of the farms lacked staff. For example, Lusenge livestock farm covering an area of seven square kilometers and having 445 livestock was being run by 1 manager, 1 veterinary officer and 6 farm helps who serve as herds men, askaris, porters, and bush clearers.

Management should review the current staffing levels with a view to providing adequate staff.

67.8.2 **Specific findings**

**Lusenke Stock Farm**

i) **Cattle dip-tank**

It was observed that the dip tank at Lusenke Farm had a number of cracks and it has been out of use since 2008 as indicated below:

![Dis-functional dip tank.](image1)

![Cracked walls of the dip tank.](image2)

This has made it difficult for the farm as it depends now on hand spraying, a method that is both time consuming and labor intensive.

Management acknowledged the challenge and indicated that funds have been ear marked to renovate the dip tank in the FY 2013/2014.

I await for the outcome of the management commitment.

ii) **Lack of a Water pump and storage tank**

It was noted that the farm water system broke down long ago and currently uses manual
labour for fetching water from the river to spray and water the calves.

Management explained that there is no water reticulation on the farm because the water pump and engine were looted by wrong elements. However NAGRC in partnership with Parabel an American company promised to develop a water reticulation system on the farm. It is hoped that through this partnership the farm will access pumped water.

I await the outcome of the above commitment.

iii) **Perimeter fence and paddocks**

It was observed that Lusenke stock farm is not fenced both around the farm and between paddocks leaving it open for animals to roam and stray in and out. It was also noted that there were cases where untreated local animals stray in the farm, consequently causing diseases.

Management acknowledged the challenge and advised that funds have been ear marked for fencing of the farm in the FY:2013/2014. The accounting officer further explained that bush clearing of 3 square miles had started and the idea was to grow maize for the animals.

I await for the outcome of the above action.

iv) **Declining health of livestock**

It was observed that due to drought that has persisted most of the cows were emaciated especially the 122 supplied by NALPIP project. The farm depends on natural pasture and the effect of draught has greatly reduced the quality and vigor of the animals. One animal was found dead and a post-mortem had not been carried out to establish the cause of death. In addition, the culling policy was not yet established and this brings the problem of keeping of old animals as well as the steers that no longer serve any purpose.

The pictures below portray the current situation.
I explained to management that since the farm is ideally a demonstration farm quality should not be compromised. In the current state, there is a risk that the centre could lose many animals.

67.8.3 Njeru stock farm

i) Uncollected non tax revenue

It was noted that for the last 2 years the farm has not received Non Tax Revenue estimated to be 60 million from three telecommunication companies (MTN, UTL and AIRTEL) that erected communication masts on the farm land. I noted that there was no running agreement with the communication companies and could not therefore confirm the status of revenue arrears.

ii) Land encroachment

The farm land is being encroached on by people farming and putting up permanent structures. On the northern side of the farm about 10 acres were encroached on notably by a company called Coopers allegedly allocated by Njeru town council.

iii) Use of farm resources by the army

It was noted that there is a military company (about 30 soldiers) located on the farm which at times forces management to provide them with milk, power, water and farmland for cultivation. It was stated that at one time it was not easy to make the soldiers realize
the need to stop cultivation and the commander even switched off power supply to the farm when milk was not given to him.

iv) **Tress pass on Government Land**

It was observed that the farm is not able to make use of one of its facilities due to a tress passer who claims ownership of the same property. The LC 1 chairman of Njeru Town Council claims that he was given lease for the property by Njeru Town Council but the circumstances under which the lease was given were not clear. The same premises still have an inventory of workshop equipment and a sign post clearly indicating that it is government property as indicated in the picture below:

<table>
<thead>
<tr>
<th>Signpost un disturbed by the claimant.</th>
<th>The property approximately 5 acres of prime land on the verge of being grabbed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy duty equipment rendered idle by ownership wrangle.</td>
<td>Many of such equipment are also claimed by the same person as belonging to him.</td>
</tr>
</tbody>
</table>

In the circumstances, there is a risk that Government could lose its land and other assets. I advised management to follow up the matter with authorities.

**67.8.4 Kasolwe Stock Farm**

The farm is located in Kamuli District and occupies about 2000 acres and is currently accommodating 784 cattle and 459 goats. Like the other farms; I noted that it is characterized by poor/dilapidated infrastructure, power lines collapsed about 4 years ago,
and the houses used as offices and residential are overdue for overhaul/renovations. The farm is located in a remote place with no transport facility and the compound was littered with scrap as indicated below:

![Image of farm with scrap]

i) **Non-disposal of animals**

It was noted that there is no disposal policy in place which has led to accumulation of many old cattle that were long recommended for disposal by management of the ranch. This is likely to affect the quality of meat hence causing financial loss to government.

Management explained that cull cows will be sold when permission is given by PPDA.

I urged the Accounting Officer to follow up the matter with the authorities to ensure the matter is resolved.

**67.8.5 Bulago Stock Farm**

Located in Bulambuli district; it occupies approximately 180 acres. The farm is a demonstration for breeding of dairy cattle and currently has 37 adult cows and 6 calves.

i) **Lack of a cattle dip tank**

It was observed that the farm lacks a functioning cattle dip tank for treatment of cattle against ticks and animals are therefore not sprayed. This was evidenced by the ticks on the livestock despite having drugs in store. See the picture below:
I explained to management that this could cause death to animals.

Management explained that the dip tank funds were earmarked for the activity in the financial year 2013/14. The outcome of management action is awaited.

ii) **Maintenance of bulls on the farm/non-use of artificial insemination**

The intention of setting up multiplication farms was to encourage the use of artificial insemination and to avoid in-breeding. It was however noted that the farm has not yet started using artificial insemination despite the fact that an officer was posted there.

I also noted that the farm is currently not using liquid nitrogen because of the terrain as transportation of the same becomes a problem. There is a possibility that the key objective of putting up this farm will not be achieved hence misallocation of resources.

I advised management to ensure the facility is fully utilized.

### 67.8.6 Maruzi Ranch

Located in Apac District; it occupies 19,200 acres of land. The ranch was re stocked and earmarked for the preservation of the Ankole cattle and the Zebu.

i) **The farm structure**

The farm has land but lacks a title for it. It was noted that the ranch has no farm structure both for office and residential as the ranch office is housed in a rented structure belonging to one of the many fishermen/squatters in the ranch. It was reported that rent has not been paid for a period of over 2 years and there is imminent eviction by the
“landlord”. See the picture below:

![Office and Manager's Residence](image)

The above structure is the Office as well as the manager’s residence.

Due to lack of storage facilities, it was reported that semen cannot be used at this farm for artificial insemination.

Management explained that there were no houses as a result of looting that took place during Amin’s regime. However, unipot parts were delivered to the farm and a wait fixing so that there are three unipots to act as an office and accommodation.

I advised management to ensure that the certificate of ownership of the farm is secured and liaise with relevant authorities to seek for funding for farm facilities.

ii) **Encroachment**

It was observed that the ranch co-exists with fishing villages and a school. The ranch accommodates 4 landing villages of Acholi inn, Kampala, Kagoye and Corner Mulema and there was no evidence that NTR is collected despite the fact that people are engaged in commercial activities like fishing and charcoal burning as indicated in the picture below:
A fishing village located inside the Ranch.

I explained to management that the squatters could easily claim government land if not evicted immediately.

Management acknowledged that the challenge has been on and indicated that with the efforts of staff and the District Security team; a number of people were evicted with their cattle and those who were involved in cultivation.

I advised management to expedite the process.

67.8.7 **Nshara, Sanga, Ruhengyere and Rubona Field stock farms**

i) **Lack of records for the individual animals at the farms**

It was noted that all the stock farms visited did not maintain the individual records for their animals contrary to the Treasury Accounting Instructions. I explained to management that failure to maintain the records casts doubt as to how many animals are in the farm, those due for disposal and how many have died which may lead to understatement of carrying amounts of the animals hence causing financial loss to Government.

I advised management to ensure that standard records for animals are put in place at all farms.

ii) **Lack of title deeds for the farms**

It was noted that the Centre lacks certificates/proper documents for the ownership of land/ranches. I reported on this weakness in my last year’s report to Parliament but no
action has been taken. The most affected farm is Sanga where out of its 2.5 sq. miles; Captain Bashaija had taken 1.5 sq. miles, and the town council has taken over unknown portion of the land. At Ruhengyere; 80 acres of land has been encroached on by the Church of Uganda and a one Mr. Mubangizi.

I advised management to ensure that the process of securing title deeds for the farms is hastened to avoid any eventual loss.

iii) Security at the stock farms

The centre hired a firm called “security plus” to guard the assets at the farms, and two persons have been deployed at Nshara and Ruhengyere farms with one riffle. I noted that there was no deployment of security guards at Sanga and Rubona stock farms yet the area acreage for the farms is too big to be managed by only two guards with one gun. I explained to management that there is a risk that animals could get stolen as the security gap seems to be significant.

I advised management to improve security at these farms to ensure government assets are protected.

iv) High death rates of animals at the farm

It was noted that the farms are experiencing high death rates of animals mostly the goats and Ankole cows at Rubona stock farm due to diseases caused by Pneumonie and other infections. Out of the total stock of 257 cattle, 51 died representing 20% loss of Ankole cows and out of the total number of 253 goats, 107 died representing 42% loss during the year. There is a risk that animals may not multiply quickly.

The Accounting Officer explained the high death rate was due to drought and that there were plans to de-silt the valley to increase the water carrying capacity to be able to beat the scarcity in the dry season. At Ruhengere over 200 acres of maize are to be cultivated to make silage for use in the dry season.

The above action is awaited.

v) Un accounted for animals (30 goats)

- It was noted that 30 goats were transferred from the stock farms for the trade fair shows at Jinja and Mbarara. However at the time of inspection in January, 2014,
these animals had not been returned.

- 11 goats were transferred from Ruhengyere field station to Jinja show but only 2 goats were returned to the farm leaving 9 animals unaccounted for.

- 2 goats were transferred from Rubona stock farm to Hon. Sawudda Mugenyi, however, there was no official communication or authority for the release of the animals.

- At Nshaara ranch 348 goats were recorded as closing stock as at 30th June, 2013 but physical count indicated the number was only 329 goats hence a shortfall of 19 goats. The unaccounted for animals might have got stolen causing financial loss to the centre.

Although management explained that the goats were authorized to move to the Jinja Agricultural show and that those which did not return were sold to farmers; documentation supporting the position was not presented for verification.

I advised management to account for the missing animals.

(vi) **Scrap at the farms**

It was noted that stock farms have accumulated a lot of scrap which occupies space and these need urgent disposal. These included:

<table>
<thead>
<tr>
<th>Name of the field stock farm</th>
<th>Details of scrap</th>
</tr>
</thead>
</table>
| Nshaara ranch                | Lorry Isuzu UG.0025A parked since 2008
|                              | Pick up Mitshibishi UA. 2444 parked since 2002
|                              | 3 tractors parked since 2002
|                              | water pumps very old parked since 2000
|                              | various scraps parked since 2002
| Ruhengyere field station     | Very old lorry UG.0183A
|                              | Double cabin pick up UG.0178A
|                              | Single cabin UG.0179A

Management explained that most of the scrap has been earmarked for disposal as indicated by the board of survey report for the year 2013/14. I await management action.
68.0 NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY YEAR ENDED 30TH JUNE, 2013

68.1 Mischarge of Expenditure

Expenditure of UGX.190,157,114 in respect of various activities was charged wrongly to item codes meant for other activities resulting in misstatement of amounts expended on the affected item codes. This implies that the financial statements are misrepresented with regard to the mischarged amounts and the practice renders the budgeting process redundant.

Management undertook to streamline the budgeting process in the subsequent financial years to avoid repeat of mischarging expenditure. I have advised the Accounting Officer to ensure that payments are correctly charged to the item codes to enable proper implementation of the Authority’s programmes.

68.2 National Environment Fund Management

Management is empowered by Section 88 of the National Environment Act Cap 153 to maintain a National Environment Fund (NEF) where internally generated funds are managed. The fund account is managed independently of the main operational funds and a separate set of financial statements prepared. The following matters were observed;

- Examination of the funds records revealed that the debtors increased from UGX.1,305,723,317 in the previous year to UGX.5,678,323,690 in the current year. The failure to collect all billed revenue may be an indicator of laxity on the part of management which greatly affects the implementation of planned Fund activities.

- The Environmental Impact Assessment (EIA) fees payable by clients are calculated from the project costs computed by the applicants without NEMA’s independent verification and assessment of the figures disclosed; making it likely that some clients could be under declaring project costs with the aim of paying lower fees.
Management explained that the increase in debtors was a result of failure by some Government entities to pay assessed bills, which constitute UGX.4.6billion (82%) of the total indebtedness. They further stated that NEMA lacked the capacity to independently verify project costs declared by the developers. I have advised management to institute recovery measures of all the debts and to also explore mechanisms of independently verifying the declared projects costs and reassessing the fees payable by the developers.

68.3 Outstanding Receivables

Management disclosed debtors of UGX.15,785,206 in the financial statements which have been outstanding since 2011/12 financial year. There was no evidence of measures taken by management to recover this money. There is a risk that these debtors may eventually become bad and uncollectable.

Management explained that instructions had been given to the authority’s lawyer to recover the money and I have advised them to expedite the recovery process.

68.4 Revenue Performance - GoU Funding

Review of the approved budget and the financial statements for the year revealed that out of the total budget of UGX.5,799,827,000, the Authority realized UGX.4,681,353,889 (80.7%) resulting into a shortfall of UGX.1,118,473,111. The failure to realize all the budgeted funds affected the implementation of planned activities for example the economic valuation of soils in Uganda, the environment officers’ annual meeting and staff training could not be implemented.

Management explained that they would continue to engage the Ministry of Finance, Planning and Economic Development (MoFPED) to ensure improved funding. I have advised management to continuously liaise with MoFPED for improved funding.

69.0 NATIONAL FORESTRY AUTHORITY (NFA) FOR THE YEAR ENDED 30TH JUNE 2013

69.1 Non-submission of Financial Statements
Section 78(2) of The National Forestry and Tree Planting Act, 2003 requires the Board to submit the financial statements of National Forestry Authority to the Auditor General for auditing within four months after the end of each financial year however, the statements were not submitted.

In the absence of the financial statements, I do not express an opinion on the authority’s state of affairs or its operations for the year then ended.

Management explained that Board’s Term of Service expired before finalisation of the accounts. I have advised management that since the term of the Board is known in advance, arrangements should always be made to appoint members in a timely manner to enable presentation of Financial Statements as required by the law.

69.2 **Physical Performance**

According to the entity business plan (2009-2014), NFA planned to construct and maintain 2,000 kms of road network; produce 10,500,000 quality seedlings and establish 2,500 hectares of new plantations in central forest reserves annually.

Review of the work plan for 2012/2013, however, revealed that management lowered the targets in the development plan when setting targets for some activities in 2012/13. Audit further noted that although the planned out puts for 2012/2013 FY were lowered compared with what is indicated in the development plan, there were considerable variances with actual outputs as indicated in the table below:

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Planned Outputs</th>
<th>Actual Outputs</th>
<th>Variance</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing of New Tree Plantations</td>
<td>1,386ha</td>
<td>667 ha</td>
<td>719 ha</td>
<td>52%</td>
</tr>
<tr>
<td>Plantation management/Road Network</td>
<td>484 km</td>
<td>157.2 km</td>
<td>326.8 Km</td>
<td>67.5%</td>
</tr>
<tr>
<td>Support of Seeds and Seedlings</td>
<td>9,968,156</td>
<td>7,734,560</td>
<td>2,233,596</td>
<td>22.4%</td>
</tr>
</tbody>
</table>
Failure to achieve the annual outputs greatly impacts on the achievement of the overall objective of supplying forest and non-forest products and services.

Management explained that the annual operating plan was based on anticipated revenue from donors and NTR which was not realised during the period. Management further indicated that failure to achieve the planned activities was a result of paying the legal costs which had not been provided for in the year end budget.

I have advised management to put in place sufficient measures at the planning, execution, monitoring and evaluation stages that will enhance performance.

69.3 Court cases, Legal fees and Court wards

According to the status report on court cases obtained from the Legal Department, the Authority had 45 cases in the Courts of Law as at 3rd May, 2013. Further review of court cases revealed the following:

- During the financial year under review, the Authority paid out UGX.861,539,549 and accrued UGX.1,312,682,451 in legal expenses and court wards. It was observed that the amount paid was not provided for in the approved budget for 2012/2013 and no re-allocations or virement warrants were made.

- The legal department was grossly understaffed with one advocate, without legal assistants. The department also lacks law books, logistics in terms of paper, internet and files. There is a risk of losing the majority of the 45 cases which are pending in the courts of law with this level of staffing in the legal department.

Audit, further noted that, the amounts incurred in legal fees and court awards was 12.8% of the local revenue collected during the year. This greatly undermines the mandate of the Authority.

Management indicated that a Legal Officer on a short contract has been hired and one staff from the Solicitor General’s office has also been brought on Board to beefup the Legal department.

I have advised management to adequately evaluate courts cases with the view of
gathering sufficient evidence and hiring competent legal professionals to handle each case.

69.4 **Procurement Anomalies**

PPDA Regulation 69 (1) empowers the Accounting Officer to only delegate a procurement or disposal function following a written recommendation by a contracts committee, signed by the Chairperson of the Contracts Committee. However, examination of procurement documents for Ranges, Central Forest Reserves (CFRs) and Plantations revealed the following:

(i) NFA field officers entered into contractual obligations in Ranges, CFR\(^2\) and Plantations and incurred\(^3\) UGX.4,036,796,624 on contracts for goods, works and services without delegated authority of the procurement function from the Accounting Officer.

(ii) Review of the procurement contract agreements for the supply of the above goods and services indicated that most of them were not signed by both Executive Director and Legal Counsel.

(iii) Procurement Reports were not submitted to the main Contracts Committee of National Forestry Authority as required by PPDA Regulation 72 (3) (a). In the absence of reports, the value of contracts entered into by managers of forest reserves, ranges and plantations during the year under review could not be accurately ascertained.

(iv) A standard format of Contract Agreement was used in all ranges, CFR and plantation for the procurements made. Review of the Contract Agreements revealed that Article 1(1.3), required the authority to pay 100% of the contracted works after being inspected by NFA and qualified as satisfactory and Certificate of Completion issued. However, this was not adhered to and as a result the authority accrued UGX.2,492,150,154 for the works executed by Contractors in these units.

Management indicated that it was in the process of streamlining the delegation process and that procurement training has already been held to prepare field staff.

\(^2\)Central Forest Reserves

\(^3\)Paid 1,544,646,470 and accrued UGX 2,492,150,154
I have advised the Accounting Officer to enhance procurement procedures undertaken at the lower units as guided by Procurement Laws, Regulations and Guidelines. Meanwhile irregular procurements should be investigated.

69.5 **Private Tree Planting in Central Forest Reserves**

The NFA offered land to Private Tree farmers in line with National Forestry and Tree Planting Act, Sec 2 (e) which encourages public participation in management and conservation of forests and trees. Review of tree planting licences offered to private tree farmers revealed the following:

(i) Out of the 3610 private tree farmers that were offered land by NFA for tree planting, only 2,242 are active while 1,368 are not. As a result of having inactive farmers only 52,675 ha out of 111,056.6ha of land allocated to private tree farmers have been planted leaving 58,381.1ha un planted.

(ii) The private tree farmers are supposed to pay for ground rent of the planted area to NFA yearly however, audit noted that since 2008 when land was first allocated to June 2013, NFA did not issue out demand notes as required.

(iii) A review of reports on private tree farmers revealed that 135 farmers who were allocated less land or non-at all were able to plant trees without authority of National Forestry Authority which is irregular according to the terms of licences issued.

(iv) It was further noted that NFA lacks clear internal block boundaries resulting into conflict between tree farmers.

(v) Audit established that the annual land license fees were supposed to be reviewed every 5 years but this has not been the case. This has greatly affected NFA revenue collections.

Management indicated that it has finalised the assessment of private tree planters and is in the process of withdrawing unused or misused land. I have advised the Accounting Officer to streamline the management of Private Tree farmers in the Central Forest Reserves.

69.6 **Funds not accounted for**

a) **Unacknowledged Local Service Tax Remittances**
During the audit, it was noted that remittances to various Districts in respect of local service tax amounting to UGX.33,140,000 were not supported with acknowledgement receipts from the respective districts. In the absence of acknowledgement receipts, there is a risk that the money may not have been received by the Districts.

b) **Expenditure on Travel abroad not supported**

UGX.59,697,292 was paid to staff and Board members as per diem while travelling abroad. However, there were no boarding passes and other relevant documents to account for the trips undertaken. It was therefore, not possible to ascertain that the trips did actually take place.

c) **Expenditure not properly supported**

National Forestry Authority paid out UGX.237,093,934 to National Tree Seed Centre and Regional Nurseries for raising a number of seedlings. However, there were no accountability returns for the funds used. In the absence of accountability documents, it was not possible to ascertain whether the money advanced was properly used.

d) **Administrative Advances not accounted for**

TAI 217 requires public officers to account for funds advanced to them within a period of 60 days, otherwise they ought to be recovered from their salaries. It was noted that, UGX.625,498,749 paid to various officers to undertake activities of the Authority had not been accounted for by the time of audit.

I advised management to ensure that all the funds are accounted for or recovery measures be instituted.

69.7 **Doubtful Fuel Expenditure**

The Authority uses a fuel card system that enables officers access fuel as and when required. A sum of UGX.1,036,461,931 was deposited with Shell Uganda Ltd and Total Uganda Ltd to cater for fuel expenditure. This expenditure was reviewed and a number
of anomalies identified as follows:

(i) It was observed that Transport Officer did not maintain a Fuel Register contrary to Section F-I (7) (c) of the Uganda Government Standing Orders. In the absence of a fuel register and monthly reconciliations it was not possible to ascertain the usage of fuel by the Authority motor vehicles.

(ii) Fuel cards not declared:

The Transport Officer failed to submit a list of fuel-card holders to the audit team which limited the audit scope. There is a risk that some fuel was not utilised for official purposes.

I have advised management to review and streamline the management of fuel utilisation by the staff of the Authority.

70.0 NATIONAL WATER AND SEWERAGE CORPORATION (NWSC)

70.1 Delayed Revaluation of Property, Plant and Equipment (PPE)

The accounting policy regarding plant, property and equipment requires that All categories of property, plant and equipment are initially recorded at cost and are subsequently shown at market value, based on periodic, but atleast triennial valuations (every 3 years) by external independent valuers, less subsequent depreciation. I however noted that the last revaluation by an independent valuer was done five years ago, in January 2008. Had the corporation undertaken a revaluation of its Property Plant and Equipment as required by the policy, the value of its assets as well as the depreciation there of would have been different from what has been reported.

In their response, Management explained that a comprehensive revaluation is scheduled to be done under the ongoing Kampala Lake Victoria WATSAN Project and this will subsequently be followed with a review of the corporations’ asset policies. I have urged management to expedite this action accordingly.

70.2 Governance of the Corporation

It was noted that the corporation spent a period of six months stretching from August, 2012 to February, 2013 without a Board. In addition, it was noted that two months after taking office, the new chairperson of the Board was suspended. This was besides the fact
that the corporation had no substantive Managing Director for the entire period under review.

Under the circumstances, the corporation risked losing its strategic direction and the status quo greatly hampered their operations during the period. I advised management to always liaise with the appointing authority in good time, to allow for timely replacement of staff as well as the board following expiry of its tenure. In their response, management concurred with the observation and promised to take up the advice accordingly.

70.3 **Internal Audit Function**

The entity has a fully-fledged internal audit division headed by the chief internal auditor who reports directly to the board. A review of the division’s operations revealed the division is engaged in both pre- and post-audit activities, hence creating a risk of conflict. Also noted was that the division has insufficient numbers of staff. Although the organogram provides for 26 staff, it currently has 20 staff; also noted was that 16 out of the 28 areas of NWSC do not have resident internal auditors. These weaknesses hamper the divisions’ capacity to effectively deliver its mandate.

I advised the Corporation to review and streamline the operations of the internal audit function so as to safeguard its independence and effectiveness. Management has accordingly committed to have these matters addressed.

70.4 **Human Resource Function**

a. **Failure to Implement Approved Structure**

It was noted that in July 2012, the board approved a new organogram for the Human Resource (HR) function in which it was to become a fully-fledged division headed by a chief manager human resources. A year after approval, this board decision has not been implemented; the HR function is still under the management services division. As a result, the HR function has continued to be implemented by the two divisions of Management services and Institutional development and external services (IDES), resulting into inefficiencies.

In their response, Management acknowledged the concern and explained that they were reviewing the overall organizational structure of the entire corporation so as to
implement all such changes at once. I emphasised the need to expeditiously handle this matter so as eliminate the current inefficiencies in the HR function.

b. **Irregular Recruitment of Staff**

The NWSC human resource manual provides that recruitment shall be by sourcing from the open market through advertisement of the position in the print media, use of external consultants or head hunting where there is a justified reason. In case of a position falling vacant, management may recommend promotion of a qualified employee within the corporation to fill the position. I observed however, that the above procedure of recruitment was not being implemented. From the one year sample reviewed, I noted that 23 employees had joined as trainees but later taken on as substantive employees without following the formal recruitment procedures. Besides, I also noted that there is no policy in place regulating the procedure of taking on interns and trainees to work at the corporation; the procedure is therefore not competitive and transparent.

In their response, management explained that the corporation gets interns and trainees from selected training institutes to work at the corporation as part of their training; these interns and trainees usually stay on at the corporation long after their training period has come to an end. When entry level positions fall vacant, the corporation advertises internally and these trainees submit applications upon which they are then formally recruited into the corporation. Failure to follow the proper recruitment procedure as laid down in the human resource manual may result into NWSC missing out on well qualified and competent personnel. This could also imply that NWSC is not an equal opportunity employer which impacts on its reputation; besides the above practice also fuels nepotism. I have accordingly advised Management to ensure that they adhere to the requirements under the Human Resource Manual.

70.5 **Payment of Leave Allowance**

Section 54 of the Employment Act 2006 provides that an employee is entitled to annual holiday of 21 days with full pay and any agreement to forego such a holiday for compensation shall be null and void. I however, noted that a total of UGX.373,116,545 was paid out in lieu of leave during the year under review. This was irregular.

Although Management explained that this was in compliance with section 11.1.1 of the new Human Resource Manual, it was however, noted that this was not in compliance with the law and could therefore not be applicable. I have advised management to
initiate recovery measures of the funds irregularly paid and to harmonise corporation policies with the law.

**70.6 Staff Members Acting for more than 12 months**

The NWSC human Resource manual provides that Acting appointments shall not exceed twelve (12) months, except in special circumstances approved by Management or the Board as the case may be. I noted however that a total of 128 staff members were promoted in acting positions and 52 of these had been acting for more than 12 months by the time of the audit. There was no evidence that there were special circumstances that were approved by management or the board. Staff in acting positions continue to perform duties in their substantive positions as well as duties in their acting positions. The corporation therefore risks having inefficient employees.

In their response, Management explained that a list of those staff members due for confirmation has already been compiled and this will be presented to the board by 31st March 2014. I advised management to adhere to the provisions of the Human Resources manual.

**70.7 Leave Transport Allowances**

The human resource manual provides for leave transport allowance once a year at a rate of 5% of their annual basic pay. However, analysis of the payroll historical data revealed that some members of staff were paid leave transport allowance that was significantly higher than 5% of their annual basic pay. One staff member was paid as much as 21% in the year under review. Overall, the corporation paid out UGX.5,246,645 as leave transport allowance in excess of what they were supposed to pay. This amount is recoverable.

In their response, Management regretted this anomaly and promised to recover the overpaid allowances by 31st March 2014. I await the outcome of this action.

**70.8 Land without Titles**

I noted that the corporation has over 80 prime properties across the country for which it does not have titles. Some of the land was either purchased from private individuals or leased from district land boards and some was inherited from the Directorate of Water Development at the Ministry of Water and Environment, but titles have not been processed for NWSC. In the absence of the land titles, the corporation risks losing the
land in the event of ownership disputes or paying twice for land it has already bought.

Management explained that applications for land titles have been submitted to the various land boards for consideration; however, the process has been slowed down by the closure of the land office as well as the non-operational district land boards. I advised management to follow up this matter until the titles in question are obtained.

70.9 Grounded Vehicles and Motorcycles

The finance and accounts manual provides for the disposal of assets that have lived past their usefulness. A review of records however, indicates that a total of 13 motor vehicles and 24 motor cycles are grounded. The continued failure to have the vehicles disposed off, leads to further deterioration in value as well as the proceeds the Corporation would recover. A physical inspection of the vehicles at Gaba revealed that a number of them were in a deplorable state and appeared to have been long abandoned. I also noted that though the records indicate 13 motor vehicles and 24 motor cycles, the grounded vehicles are more than what is recorded; inquiry from management revealed that some of the vehicles belong to the Ministry of Water and closed projects. Management further explained that the corporation has made several attempts to dispose these vehicles under PPDA guidelines but the response was poor and has now resorted to disposal by public auction.

I have advised management to expedite the disposal process and also ensure that all vehicles which do not belong to the corporation are transferred to the owners’ premises at the owners’ cost.

70.10 Inventory Valuation

The corporation’s accounting policy states that "Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis less provisions for impairment. The weighted average method of inventory valuation requires a change in average unit price whenever new inventory is received and this same price should subsequently be used for issue of inventory until another batch is received". Contrary to the above, I noted that whereas the iSCALA system computes the weighted average price whenever there is receipt of inventory, it goes ahead to value the inventory issued subsequently using the First-In First-Out (FIFO) method and also calculates a new weighted average price whenever there is an issue of inventory.
A further review also noted that the system can accept issue of inventory even when the balances are nil. This makes the balances run into negatives, which may imply that the stores department is issuing what they do not have. The practice will force the system to calculate negative price balances and subsequently adjust the new weighted average price calculated on receipt of a new batch. Under the circumstances there is a risk of misstating the cost of sales as well as the closing inventories.

In their response, Management acknowledged the system anomaly and explained that they would engage the iSCALA consultant to rectify the inconsistency in the system. I await the outcome of this management commitment.

70.11 **Hoima Inspection Report**

a. **Boreholes**

Hoima Area pumps its water from underground with the aid of boreholes. The following issues were noted during inspection of the boreholes:

- Borehole No.5 with a carrying amount of UGX.113,228,154, has never been operational since its construction in 2006. It was handed over by the contractor without a pump, NWSC procured a pump but it was discovered that no water could be obtained from the site. The pump was removed from the borehole and put in borehole No.8 when its pump broke down.

- Borehole No.6 with a carrying amount of UGX.105,898,841, has not worked since it was commissioned in 2006; its pump was also removed and taken to the water treatment plant.

From the above observations, it is evident that indicators of impairment do exist for the two boreholes; however, an impairment review to ascertain whether the carrying amount was higher than the recoverable amount was not undertaken as is required under the International Financial Reporting Standards. There is a risk of overstating the carrying amounts as well as failure to recognize any would be impairment loss.

In their response, management explained that the procurement processes for revamping the two boreholes was underway. I advised management to expedite this process or else have an impairment review undertaken accordingly.

b. **Contract with Mr. Mugenyi Yesero**

At the time of constructing the reservoirs located at Kikwite, the Local government
identified a vantage point on Mr. Mugenyi’s land located on plot 41 blocks 17 Bugahya, Hoima District. A lease agreement (renewable every 10 years) was entered into between Hoima Town Council and Mr. Mugenyi in April 2006; the terms stipulated that in exchange for the use of his land (measuring 70 by 40 metres), Government would supply free water to Mr. Mugenyi. The corporation inherited the contract from Hoima Town Council when it took over the operations of the area. At the time of inspection, the monthly water consumption amounted to UGX.5,000,000; the lessor has consumed water worth UGX.127,800,432 between January 2007 and October 2013 as shown below;

<table>
<thead>
<tr>
<th>S/NO</th>
<th>YEAR</th>
<th>VALUE OF WATER (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>2007</td>
<td>6,834,654</td>
</tr>
<tr>
<td>02</td>
<td>2008</td>
<td>11,987,378</td>
</tr>
<tr>
<td>03</td>
<td>2009</td>
<td>5,675,412</td>
</tr>
<tr>
<td>04</td>
<td>2010</td>
<td>6,798,014</td>
</tr>
<tr>
<td>05</td>
<td>2011</td>
<td>22,160,919</td>
</tr>
<tr>
<td>06</td>
<td>2012</td>
<td>43,051,244</td>
</tr>
<tr>
<td>07</td>
<td>2013 (to Sept.)</td>
<td>31,292,811</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>127,800,432</td>
</tr>
</tbody>
</table>

Under the circumstances, it is apparent that the lessor’s consumption is exponentially growing over the years; the corporation has already provided water to Mr. Mugenyi that greatly exceeds the value of the land on which the reservoir is located, during this period.

In their response, management explained that they were in the process of renegotiating the terms of this agreement including a possibility of outright purchase of the land in question. I await the outcome of this management action.

c. **Outstanding Arrears of Karuziika Palace - UGX**

NWSC procedures require that a customer who has not paid for his water consumption within 30 days from receipt of their bill should be disconnected. The team observed however, that during the financial year under review, Karuziika palace has not paid its water bill amounting to UGX.10,916,536 despite several reminders from the area manager. Management explained that in July 2013, the palace was disconnected, but this was illegally reconnected. There is a risk that the Corporation will continue to lose revenue due to the continued provision of water to a non-paying customer.

In their response, Management explained that the corporation was in negotiations with government (Ministry of Gender) to have these arrears paid directly to NWSC. I await the
outcome of this management action.

70.12 **Mbarara Inspection Report**

a. **Assets Missing in the Asset register**

The following assets that were physically verified were not included on the asset register:

- one fuel tank at Ruharo,
- a transformer at Kabale road plant,
- one steel water tank at Nsikye,
- one booster pump, motor, pump house and an office building at Bwizibweera trading center,
- a booster pump and a motor at Bihairwe,
- One generator at Victor Bwana road and one of the steel water tanks at Boma tank hill.
- A brand new pump donated by the Ministry of Water.

Under the circumstances, there is a risk of misstatement of the corporation assets as well as the related depreciation thereof. Besides, the assets that are not included on the asset register are susceptible to misuse and loss.

In their response, management acknowledged the anomaly and explained that a project had been instituted to review the current asset management system and would therefore have this matter addressed by the end of 2013/14 financial year.

70.13 **Information Systems Review**

During the audit, a review of the Corporations’ Information Technology (IT) operations was undertaken with a view of assessing their reliability in handling the business processes of the corporation. The key IT systems maintained by the Corporation include: *HiAffinity/Custima* used for billing; *E-Water System* which provides an interface between the billing system of NWSC, banks and some Mobile money platforms and the *iSCALA* system that is used for budget and financial management. The Audit scope was limited to the general and application controls of the *HiAffinity* system given the criticality it has in the business process of the corporation.

The observations noted during this IT systems review as well as my recommendations
thereeto were accordingly communicated to management. In their response, management has committed to ensure that all the weaknesses identified are accordingly addressed.

71.0 **NATIONAL WATER AND SEWERAGE CORPORATION KAMPALA SANITATION PROGRAMME PHASE I – FOR THE YEAR ENDED 30TH JUNE, 2012**

7.14 **Exchange gains/losses**
Audit noted that most of the payments to contractors were made directly by the ADB based on documents submitted after review and approval by NWSC and verification by Accountant General’s Office (AGO).

Review of the financial statements, however revealed that the foreign exchange gains or losses were not recognized on the substitute currencies used by ADB to pay the contractors as required by Section 2.04 (Currency of disbursements) of the Loan agreement. Consequently, the net loan realization may not be accurately recorded given the fluctuations in the Unit of Account (UA), Euro and other currencies used. In addition, the net cost of the project may not be accurately stated with a possibility that the net outstanding loan amount may not be adequately ascertained by the Implementing Agency.

Management explained that the Treasury Department at the Ministry of Finance Planning and Economic Development (MoFPED) was responsible for managing the movements in foreign currencies.

I have advised management of NWSC to undertake reconciliations with the Treasury department and ADB to ascertain the foreign exchange gains or losses and disclose them in the financial statements.

**ACCOUNTABILITY SECTOR**

72.0 **UGANDA REVENUE AUTHORITY**

72.1 **Bank balances on inactive Bank accounts**
According to the statement of financial position, Revenue Collection bank accounts balances were reported as UGXUGX.196,050,026,950. Included are 2 bank accounts that were classified as inactive with a total balance of
UGXUGX.365,283,319 was reported to be held on these accounts. It’s unlikely that the loss will be made good.

The Accounting Officer explained that the inactive status was a result of a fraud however the offenders were upheld and a sum of UGXUGX.33,627,268 has so far been recovered.

I advised management to vigorously pursue the matter with a view to recovering the outstanding amount.

72.2 Revenue receipts not traceable to the bank statements

Revenue receipts worth UGXUGX.328,599,445 were not credited to the bank statements according to the reconciliations under the Barclays Bank revenue collection account.

The Accounting Officer explained that the un-credited revenue receipt was a fraud case which was investigated and culprits convicted; and that all available options to recover the revenue are being explored before write-off of the outstanding amount could be considered.

I advised the Accounting Officer to upgrade the system to avoid such losses through hacking and endeavour to outstanding revenues.

72.3 Un-allocated revenue collections UGX.2,295,441,262

The statement of comparison of target and actual revenue collection by tax head on page (44) to the accounts revealed un-allocated revenues of UGX.2,017,954,089 and UGXUGX.277,487,173 in respect of direct domestic taxes and customs taxes respectively.

Details of the tax payers, tax heads and accuracy of assessment could not be established.

The Accounting Officer explained that most of these revenues are received from Government and a few other tax payers who still make payment without
electronic registration. Such revenue is transferred to the Consolidated Fund Account by the banks and URA reports it as un-receipted revenue. If access to IFMS was fully warranted by AGO, this problem would be minimized.

I advised management to liaise with the Accountant General to ensure that TIN for all suppliers and Civil Servants are captured in the IFMS and also put in place a mechanism that ensures that information about the tax payer, assessment, tax head and tax rate is easily identifiable. The Accounting Officer should also liaise with the AGO to enable access to IFMS.

72.4 Un-cleared outstanding arrears due to NSSF

URA has outstanding arrears of UGX 7.4 billion arising from an audit by NSSF where the two parties agreed to clear the outstanding bill by paying an annual installment of UGX 1 billion. However, it was established that URA did not honour the agreement and the liability stood at UGX 8,087,815,857 as at the end of June 2013. If this understanding was adhered to, the arrears would have been cleared by 2012. The interest expense which is accumulating continuously is deemed nugatory as it could have been avoided had the Authority paid NSSF funds as agreed.

Management explained that due to financial constraints and fluctuating interest rates, they were unable to pay the agreed amounts and clear the arrears in a timely manner.

I urge management to liaise with all relevant stakeholders regarding this payment and ensure that it is settled.

72.5 Domestic Taxes

72.5.1 Gaming and Pool Betting Sector

The gaming and pool betting sector is governed by the Gaming and Pool Betting Act Cap 292 of 1968 as amended by the (Gaming and Pool Bets Tax) order 2010. The sector has four main categories of taxpayers namely: - Casino, Lottery, Slot Machines and Sports Betting. Tax is computed on the stake amount (the difference between what gamblers have betted and what they have won at the end of the day) at a rate of 20% and returns
filed with URA on weekly and monthly basis. Returns filed by the tax payers for the last 3 years were extracted from e-Tax system and analyzed. The following observations were made:

(i) **Licensed gaming & pool betting businesses not registered with URA**
A comparison of licensed businesses from the Lottery board under the MoFPED with the URA schedules under this tax head revealed that several licensed businesses were not registered with URA. This means that these companies were not paying any taxes despite being active in the business.

Taxes from these companies could have been lost.

It was also noted that there is lack of systems in place to monitor and track the volumes of business transactions under this tax head given the numerous betting companies mushrooming everyday coupled with various branches throughout the country. This may be an opportunity to increase the tax base.

Management explained that they are working closely with National Lottery Board in monitoring the licensed operators.

I advised management to continue liaising with the Lottery Board to enable regular updates of the register.

(ii) **Lack of a strategy to collect tax from the new market challenges**
The gaming, betting, lottery and casino industry has evolved over time. Currently there are many companies and branches of gaming companies that are not being supervised and do not maintain proper books of accounts. Sometimes payments are made through mobile money, a new development in the industry as well.

However, the strategy to cover this seemingly growing sector to be able to monitor and accurately assess and collect all the tax that is due was found lacking. Coupled with the fact that stakeholders are already lacking capacity to confirm remissions against the stakes collected, there is a pending risk that the current gaming act does not comprehensively cover these new developments.
The Accounting Officer explained that the Gaming & Pool Betting Act is being revised to take care of these challenges. The amendments were forwarded to the First Parliamentary Council for on-ward transmission to Parliament. Also new regulations have been issued by the MoFPED to help monitor these firms.

I urged management to expedite the process and have the revised Act in place.

72.5.2 Un-declared income earned from Ministries, Agencies & Local Governments (MALGs)

i) Companies not appearing on URA register

A review of data extracts from IFMS for payments made by Ministries, Agencies & Local Governments (MALGs) to contractors/suppliers during 2012/13 revealed that UGX. 12,994,510,471 inclusive of VAT of UGX.444,671,385 was paid as indicated in the table below.

<table>
<thead>
<tr>
<th>Ministries, Departments &amp; Agencies (MDAs)</th>
<th>No of Companies</th>
<th>Transaction Amount</th>
<th>Tax Amount</th>
<th>Invoice Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARUA</td>
<td>28</td>
<td>-</td>
<td>-</td>
<td>1,890,354,639</td>
</tr>
<tr>
<td>GULU</td>
<td>55</td>
<td>-</td>
<td>-</td>
<td>5,361,179,197</td>
</tr>
<tr>
<td>MOYO</td>
<td>33</td>
<td>-</td>
<td>-</td>
<td>1,222,752,767</td>
</tr>
<tr>
<td>NEBBI</td>
<td>32</td>
<td>-</td>
<td>-</td>
<td>1,168,742,731</td>
</tr>
<tr>
<td>Several MDAs from Centre</td>
<td>56</td>
<td>2,282,749,606</td>
<td>444,671,385</td>
<td>3,351,481,137</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>204</strong></td>
<td><strong>2,282,749,606</strong></td>
<td><strong>444,671,385</strong></td>
<td><strong>12,994,510,471</strong></td>
</tr>
</tbody>
</table>

However, it was noted that the companies could not be traced on the e-Tax registers under the respective Domestic Taxes’ stations. There is a risk that the companies could have closed business or may have been deregistered leading to loss of the revenue.

Management explained that the data has been forwarded to the respective tax stations.
for reconciliation and action.

I await the outcome of management actions.

ii) **Un-accounted for income inclusive of VAT**

An analysis as extracted from IFMS revealed that UGX.3,405,597,212 was paid to the contractors/suppliers for goods & services rendered inclusive of UGX.519,497,914 VAT due to them. However, it was noted that the sales together with the VAT paid to them were sometimes not fully accounted for in the URA records. Many entities understated their sales and others filed nil returns resulting into revenue leakage to the Authority. See details below;

<table>
<thead>
<tr>
<th>Domestic Tax Station</th>
<th>No of Companies</th>
<th>Invoice Amount</th>
<th>Tax Amount</th>
<th>VAT Sales from e-Tax</th>
<th>VAT from e-Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kampala Central</td>
<td>45</td>
<td>1,709,889,310</td>
<td>260,830,596</td>
<td>224,191,002</td>
<td>37,566,036</td>
</tr>
<tr>
<td>Kampala East</td>
<td>10</td>
<td>341,048,646</td>
<td>52,024,378</td>
<td>33,706,796</td>
<td>6,067,223</td>
</tr>
<tr>
<td>Kampala North</td>
<td>4</td>
<td>216,561,176</td>
<td>33,034,756</td>
<td>1,725,118</td>
<td>310,521</td>
</tr>
<tr>
<td>Kampala south</td>
<td>5</td>
<td>253,317,329</td>
<td>38,641,626</td>
<td>9,894,169</td>
<td>1,780,950</td>
</tr>
<tr>
<td>MTO</td>
<td>4</td>
<td>619,742,209</td>
<td>94,536,950</td>
<td>31,842,486</td>
<td>5,731,647</td>
</tr>
<tr>
<td>LTO</td>
<td>2</td>
<td>265,038,542</td>
<td>40,429,608</td>
<td>1,847,458</td>
<td>332,542</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>3,405,597,212</strong></td>
<td><strong>519,497,914</strong></td>
<td><strong>303,207,029</strong></td>
<td><strong>51,788,921</strong></td>
</tr>
</tbody>
</table>

Also noted were payments made to contractors who had businesses with Local Governments/ Districts from the Northern region, where a sum of UGX.785,948,133 was paid to contractors for goods & services rendered. Again many entities understated their sales and others reflected nil balances from the VAT returns filed with URA for respective periods resulting into revenue loss to the Authority. **Table below refers.**

<table>
<thead>
<tr>
<th>District</th>
<th>No of Companies</th>
<th>Amount paid</th>
<th>Sales from e-Tax Return</th>
<th>VAT from e-Tax Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>GULU</td>
<td>8</td>
<td>665,266,542</td>
<td>9,364,916</td>
<td>1,685,685</td>
</tr>
<tr>
<td>MOYO</td>
<td>1</td>
<td>1,886,000</td>
<td>107,875</td>
<td>19,418</td>
</tr>
<tr>
<td>NEBBI</td>
<td>3</td>
<td>118,795,591</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>785,948,133</strong></td>
<td><strong>9,472,791</strong></td>
<td><strong>1,705,103</strong></td>
</tr>
</tbody>
</table>

Management explained that the data has been dispatched to the respective upcountry
station for action.

I advised management to investigate/audit these firms and where necessary recover revenue together with penalties as provided for under VAT Act.

iii) Un-filed returns
A review of returns filed by tax payers revealed that one tax payer from Nebbi Revenue District was paid UGX.197,907,084 between March 2013 to June 2013 and December 2012. However it was noted that the taxpayer last filed a VAT return in January 2013. Contrary to the section 31(1) of the VAT Act, this payment was not disclosed to the tax body. There is likelihood that this tax payer could have been deregistered for VAT yet still in active business.

I advised management to establish the tax status of the above tax payer with a view to carrying out a tax audit to establish the status.

72.6 Implementation of Tax Investigation findings

Tax investigation reports were reviewed with an objective of ascertaining whether their findings are followed up by the respective departments in the Authority. It was noted that a number of cases were not followed and concluded. Examples include the following cases;

72.6.1 Un-realized rental tax-

The TID handled case number URA/TI/IA/052/11-12 involving rental properties registered in the names of Rose N. UGX.113,226,691 was assessed and the liability was communicated to the tax payer in a letter dated 6th June 2013. However, it was noted that there was no further evidence to confirm that the taxes were actually collected and accounted for. There is a risk that the due taxes were not realized.

I advised management to follow-up the matter and recover the taxes.

72.6.2 Irregular Compounding of a Prosecutable Case

Customs entry number C47414 of 4/6/2012 was investigated. The case involved the importer’s agent, (clearing firm) password to illegally lodge entries into customs and evade taxes. Following the investigations, taxes worth UGX.23,378,201 were found to
have been evaded and a sum of UGX.5,844,550 was recovered. The outstanding balance of UGX.17,533,651 is yet to be recovered. There was no evidence to indicate management actions towards timely recovery of the balance.

I urge management to justify the compounding of the offense and indicate actions so far undertaken to ensure timely full recovery of the outstanding balance.

72.6.3 **Tax evasion**

This was a case regarding export of skins and hides involving two companies with the same Directors. According to the investigations results taxes worth UGX.1,182,469,864 were evaded by these companies. If these funds are not recovered, there is a risk of loss of government revenue.

I advised management to explain the irregularities identified by TID in the export of skins and hides and also indicate actions undertaken in the recovery of the due taxes.

72.6.4 **Failure to Trace a Tax Payer (WE DO HARDWARE LTD)**

This case was forwarded from Domestic Taxes Department with claims that the taxpayer could no longer be traced and yet continued to charge output VAT that was being claimed by a number of identified taxpayers. This company was not making any VAT Returns. A total of input VAT amount of UGX.1.2bn was claimed by various clients but never declared by the taxpayer.

There is risk that the outstanding balance of UGX.3,450,809,078 from the assessments done using the client information filed in the VAT returns may not be recovered.

I advised management to liaise with the tax payer’s identified clients to help trace the tax payer and collect the due taxes and more Third Party Agency Notices placed on all the identified clients.

72.6.5 **Un-Served Assessment of UGX.900,000,000**

Sheila Investments sub contracted Traveller’s Choice to redevelop Nakasero market; and Traveller Choice received an initial 10% of the contract price equivalent to UGX.3,000,000,000 as a non-refundable fee.
A company was informed of a tax liability resulting from the transaction for re-developing Nakasero market involving a payment of UGX.3,000,000,000 that could not be traced to the financial statements submitted to URA for the year of the contract. Accordingly, a tax liability of UGX.900,000,000 was assessed but was not served to the tax payer because he could not be traced.

Failure to serve an assessment to the tax payer poses the risk of non-recovery leading to revenue loss. The status of the assessment and recoverability of the tax liability remains un-established.

I urged management to explain the status of the assessment and actions undertaken to recover the outstanding tax liability following the investigations.

72.7 Customs Department

7.14.1 Outstanding government taxes

Information obtained from the Customs compliance section revealed that a total of UGX.6,997,628,858 worth of taxes from Government was still outstanding of which UGX.1,186,972,206 (16.96% increase) was accumulated during the year under review. The previous year’s arrears were UGX.5,810,656,652 some of which relate to financial years since 2006. Details in table below;

**Customs table showing outstanding Government arrears as at 30/06/2013**

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitted to AG &amp; Payment awaited</td>
<td>1,844,124,283</td>
</tr>
<tr>
<td>Rejected by AG for being a late submission</td>
<td>514,710,752</td>
</tr>
<tr>
<td>Under investigations by AG</td>
<td>2,891,822,273</td>
</tr>
<tr>
<td>CHOGM imports under investigation by Parliament</td>
<td>361,394,612</td>
</tr>
<tr>
<td>Electoral Commission materials still unpaid</td>
<td>179,052,069</td>
</tr>
<tr>
<td>Returned to MDAs for amendment</td>
<td>74,817,076</td>
</tr>
<tr>
<td>Paid by BOU and captures as cash but to be converted to credit</td>
<td>57,114,925</td>
</tr>
<tr>
<td>TPCFs are still being followed up with MDA</td>
<td>842,318,197</td>
</tr>
<tr>
<td>Cases relating to transition from total exemption to payment by TPCF</td>
<td>232,274,671</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,997,628,858</strong></td>
</tr>
</tbody>
</table>

All government arrears are supposed to be settled within the year in which they are incurred or if committed, settled in the first quarter of the following year. From the
above analysis this was not the case. Management follow-up on government taxes appears to be inadequate.

Management explained that the outstanding taxes are being reconciled with various MDAs.

I advised management to undertake regular reconciliations with the Accountant General to ensure timely payments. Concerns regarding delays in settlement of these arrears should be raised with the Ministry of Finance, Planning and Economic Development to trigger necessary actions.

7.14.2 Delays in submission of commitment letters for payment

Government uses commitment forms to clear all her imports. All customs taxes due at the time of importation from Government ministries, departments or agencies are deferred and goods cleared on credit using commitment forms as a guarantee that the respective Accounting Officers do commit to clear these obligations within the financial year in which the tax obligations arose, or if committed, settled in the first quarter of the following financial year.

In order for the above to be effective, there should be timely submissions of commitment forms to Treasury by URA. It was noted that entries worth UGX.1,389,238,673 are still outstanding to-date since the Accountant General objected to their settlement due to late submissions. There is a risk that government may lose this revenue hence affecting URA performance.

I urged management to always ensure timely submissions of commitment forms to enable timely payments.

7.14.3 Un-known status of Tax Payments Commitment Forms (TPCF)

Included in the outstanding Government taxes of UGX.6,997,628,858 are some transactions relating to the period between December, 2006 and July, 2007 worth UGX.232,274,671 with unknown status of TPCF.
Management explained that these are old cases that were cleared at the transition period from total exemption to payment by TPCF. These were compiled and submitted for write-off.

The outcome of management action is awaited.

### 7.14.4 Un-collected taxes from imports

According to ASYCUDA++ Government taxes worth UGX.1,069,415,652 had not been cleared by Treasury despite the goods having been imported and received by the Government entities. It was noted that the respective Tax Payments Commitment Forms (TPCF) had not yet been submitted to Treasury to enable processing of tax payments. Details in table below;

<table>
<thead>
<tr>
<th>Action taken</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sent to AG for payment</td>
<td>160,664,682</td>
</tr>
<tr>
<td>Set back to MDAs for amendment</td>
<td>74,817,076</td>
</tr>
<tr>
<td>Demand notice issued to beneficiary for payment</td>
<td>1,506,025</td>
</tr>
<tr>
<td>Being followed up for submission of TPCF</td>
<td>832,427,869</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,069,415,652</strong></td>
</tr>
</tbody>
</table>

Delays in submitting the TPCFs results into delays in tax collections and affects the performance of URA.

I advised management to submit the above TPCFs to Treasury to kick start the payment process and ensure timely submission in future.

### 72.8 Individual tax arrears

#### 72.8.1 Individual arrears under MOUs

The arrears under MOUs increased from UGX.8,153,545,149 in the previous year to UGX.37,194,597,895, in the current year. The details in the schedule show that (5) companies alone accounted for 77.90% of the total debt see the table below:

<table>
<thead>
<tr>
<th>Tax Payer</th>
<th>Opening Date</th>
<th>Opening Balance</th>
<th>Payments</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>21/3/11</td>
<td>14,933,956,019</td>
<td>124,375,256</td>
<td>14,809,580,763</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>28/3/12</td>
<td>7,609,605,700</td>
<td>1,767,046,967</td>
<td>5,842,558,733</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Management explained as follows;

- The M.T.N debt has been outstanding since July, 2009 as it was objected to and referred to World Customs Organization (WCO).
- Uganda Electricity Transmission Co. ltd. objected to the outstanding balance of UGX.14,809,580,763 and the case was submitted to the Commissioner General for guidance. No new recoveries have been made since 2011.
- Orange case was pending hearing
- Pioneer easy bus Ltd was given a grace period of 3 months and payments commence in March 2014.

There is a risk of not collecting the funds.

I advised management to follow-up the cases and have the revenue collected.

72.8.2 Outstanding assessed customs entries

Data obtained from ASYCUDA++ indicated that a number of assessed customs entries were found outstanding to the tune of UGX.12,459,483,571. Some of these entries have been outstanding since September, 2004, e.g. an entry number UGKla - C13463 of 27/9/2004 for UGX.178,136,351 for Airtel (U) Ltd; UGKla – C18711 of 23/7/2007 for UGX.11,597,326, C37317 of 13/7/2007 for UGX.12,806,897 and C47544 of 13/9/2007 for UGX.8,668,975.

Delays in accounting for the already assessed entries poses a risk of loss of collectable revenues and encourages accumulation of large volumes of low value transactions. It also affects the performance of the collecting body.

I advise management to account for all the outstanding assessed entries and ensure that they are managed in a timely manner.

72.8.3 Un-reconciled temporary motor vehicle imports

TEVIS is a computer system used by URA for the management and control of temporary
imports of motor vehicles which are usually foreign registered and while being driven in Uganda temporarily, must pay for temporary license fees and road user charges. On expiry of the first (14) days, they either exit or renew their stay up to a maximum of (3) months beyond which renewal shall be on a Customs Bond (CB10A).

A review of a schedule of outstanding C32 entries revealed that a total of 1,115 vehicles were still outstanding at the end of the financial year, implying these vehicles were still in the country without renewing their stay. In addition license fees and road user chargers for these vehicles could not be established.

Delays in accounting for such vehicles may lead to loss of revenue.

I advised management to investigate these cases and ensure that all revenues due are collected.

72.9 Customs Field Inspections

I carried out field inspections of five customs stations and the following were noted as per details in the table below.

<table>
<thead>
<tr>
<th>Station</th>
<th>Audit Issue</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>KATUNA</td>
<td>Unsecured land</td>
<td>Management should consider fencing the land</td>
</tr>
<tr>
<td></td>
<td>• No fencing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of parking yard</td>
<td>Management should consider establishing a parking yard</td>
</tr>
<tr>
<td></td>
<td>• No parking yard and vehicle park along the road</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of toilet facilities for clients</td>
<td>Management should establish toilets for clients.</td>
</tr>
<tr>
<td></td>
<td>• There are no toilets for clients</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Use of old generator for power back-up</td>
<td>Management should considering replacing the old generator.</td>
</tr>
<tr>
<td></td>
<td>• Generator breaks down frequently</td>
<td></td>
</tr>
<tr>
<td>MOYO</td>
<td>Irregular mode of transportation of goods</td>
<td>Management should investigate the matter and account for the sugar en-route to Southern Sudan</td>
</tr>
<tr>
<td></td>
<td>• A truck transporting 580 bags of 50kg@ of sugar had a forged number plate UAP 198R for a coaster bus.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Un-Fixed fire extinguishers</td>
<td>Management should arrange to fix the fire extinguishers.</td>
</tr>
<tr>
<td></td>
<td>• Four extinguishers were kept at the registry un-fixed five months after delivery.</td>
<td></td>
</tr>
</tbody>
</table>
### Nugatory rent expenditure
- New office premises were occupied in Feb. 2013 yet rent for old premises had been paid up to June, 2013.

Management should recover the nugatory rent paid without occupation.

### Forged motor cycle number plates
- 8 motor cycles were found impounded with forged number plates after evading taxes.

Management should arrange to auction the motor cycles to recover the taxes.

### ORABA
- **Release of tax offenders without an MOU**
  - 3 motor cycles impounded for tax evasion were released and allowed to pay in installments without MOU

Management complies with set installment payments procedures and also accounts for these taxes.

### ARUA
- **Un-Supported outstanding entries in the offense register**
  - 10 entries for motor cycles were not supported by physical items in stores.

Management should investigate these entries and in future ensure all entries in the register are supported by goods in store.

### PAIDHA
- **Outstanding C32 Cases (under TEVIS)**
  - The C32 register had 103 vehicles still outstanding as of 02/09/2013

Management should investigate and account for all these vehicles.

Management explained that operational challenges at Katuna would be resolved by the World Bank (WB) one border stop center project to start soon. With regard to a regular mode of transportation of goods and forged motor cycle number plates, management promised to undertake investigations on the matter.

### 72.10 Review of Internal Audit Reports

URA internal audit reports were reviewed and outstanding issued were noted as in the table below;

<table>
<thead>
<tr>
<th>Issue Raised By Internal Audit</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Issue Raised By Internal Audit

<table>
<thead>
<tr>
<th>2.0 Importers not registered for VAT</th>
</tr>
</thead>
</table>
A review of ASYCUDA data for the period July 2010 to June 2012, revealed that 258 taxpayers dealing in Vatable supplies with CIF of UGX.751,745,865,919 did not register for VAT with Domestic Tax department despite having registered for other taxes (refer to attached working paper and Appendix 3 for Customs entry numbers) contrary to Section 6 (2) of the VAT Act Cap 349.

This was caused by lack of integration of the two systems and non reconciliation of taxpayers’ customs declaration with domestic declaration by DT operational stations which may lead to loss of revenue.

### Recommendation

AC Service Management should ensure that the listed taxpayers under Appendix 3 are registered for VAT under station 6 (2) of the VAT Act Cap 349 after inspection and field audit.

### Status

The 21st board audit committee meeting held on 24/05/2013, under Minute B(3)(III) recommended that clearing agents should be held accountable in case taxpayers cannot be traced. The Committee further recommended that Management should institute measures of ensuring that taxpayers who import goods whose value exceeds the set threshold are registered for VAT.
Only 26 i.e. 10% of taxpayers have been registered for VAT, out of 258 taxpayers identified Outstanding is 232 taxpayers.

### (D) CORPORATE SEVICES DEPARTMENT

**1.0 Delays in Reflecting Tax Payments in URA’s Systems**

Clause 10 (e) of the Agreement for Receiving Payments for Tax Arising from Revenue Laws for Financial Year 2011/12 between URA and various Commercial Banks states that Banks shall inform the Authority immediately in case of power outage or system down time which precludes timely transfer. Sections 3.5.3 and 3.5.4 on System and Network Failures of the e-Tax Technical Proposal Baseline version 1.6 mentions that if there is a network failure at URA, URA will provide the Payment Registration Data manually on any kind of the preferred media [CD, DVD, Magnetic Tapes] and consideration should be given to the possibility of setting up a point to point leased lines to guarantee the reliability of the communication, respectively.

Coordination on matters pertaining to interfaces of Banks and URA, and their connectivity is insufficient, causing revenue loss to a tune of UGX. 300,000,000 at Busia and Kampala CBC whenever there are delays.

- Manager Software engineering should ensure that the interface of URA’s revenue collections systems – on URA’s side, with those Banks’ systems is always in good function.
- Manager Information Technology Infrastructure should ensure that URA-Net is stable to enable the proper interaction of URA’s and the Banks’ in the revenue collections and transfers’ business.

### Status

1. URA is still in the process of completing the interfaces between their applications. This process is still outstanding but is being monitored as progress is being made.
2. URA is in the process of acquiring an own network availability monitoring application which will enable URA monitor deliverables according to the SLA’s in place with the service providers.
73.0 THE EAST AFRICAN TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP) (UGANDA REVENUE AUTHORITY COMPONENT) IDA CREDIT NO.4147 UG

73.1 Compliance with the Financing Agreement and Government of Uganda Provisions

Idle funds on BOU Bank Account No. 003410088400002

In my previous year’s report, it was observed that a sum of USD 22,821.99 remained unutilized on the bank account during the year 2011/2012. During the year under review, an additional USD152,028.60 was received yielding a total of USD 174,850.59, equivalent to UGX.452,588,513 which again remained unutilized during the year under review. As a consequence activities indicated below have not been undertaken:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Activity</th>
<th>Remarks</th>
<th>Amount (UGX.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business Process Re-engineering</td>
<td>Targeted to be completed by June 2013. No expenditure on this activity.</td>
<td>361,200,000</td>
</tr>
<tr>
<td>2</td>
<td>Specialised training and Development</td>
<td>Partly done at 4.53%. Targeted completion date is June 2014, but seems not to be on schedule.</td>
<td>415,380,000</td>
</tr>
<tr>
<td>3</td>
<td>Procurement of non-intrusive cargo tracking (WB).</td>
<td>Partly done at 12.3%. Targeted completion date is June 2014 which is likely not to be achieved.</td>
<td>1,806,000,000</td>
</tr>
</tbody>
</table>

Management explained that the unutilised funds is part of the USD 2,000,000 funding from the World Bank for the electronic cargo tracking system which could not be used because URA was required to first secure additional funding of USD 3,246,205.80 to cover the full cost of the system. Management promised to utilise the funds in the subsequent financial year 2013/2014.

The action is awaited.

74.0 THE UGANDA REVENUE AUTHORITY MANAGING COMPLIANCE PROGRAM

74.1 Funding gap for project activities

According to the statement of funding status, MCP had a funding gap of USD 95,194,275.
The most affected was the Infrastructure Development Project (IDeP) where funding of up to USD 83,817,900 was yet to be secured. Although it was indicated that funding is expected from Trade Mark East Africa and World Bank (TMEA) under MoWT, no confirmation has been received yet.

The funding gap poses challenges of implementing project activities and meeting project objectives within the project time span.

The Accounting Officer explained that GoU is committed to funding the project activities, with emphasis on Infrastructure Development Project (IDeP) in the financial year 2014 / 2015. The outcome of the commitment is awaited.

74.2 **Doubtful expenditure**

Expenditures of UGX.73,715,984 was not properly supported due to the following:

- UGX.10,120,000 was paid to cater for travel allowances while on a training business analysis course in UK. Supporting documents like, boarding passes, itinerary, post training reports were not availed. The course was scheduled for 12th February, while payment was made on 15th March, 2013 which makes the travel dates and course dates inconsistent.

- UGX.2,910,000 was acknowledged received on 12th July, 2012 for set up of AEO desk in Customs Business Centre (CBC) in the Eastern region though the payment was made on the 17th July, 2012, five days after it was acknowledged.

- A total of UGX.5,320,000 was paid to cater for staff allowances while on a training in Mutukula. The after training reports confirming occurrence were not availed.

- A sum of UGX.55,365,984 was refunded to the URA operations account for Service Support Enhancement Project (SSE) expenses. The borrowing was not justified since the project account had sufficient funds.

In the above circumstances, I could not confirm whether the funds were spent on the intended purposes.

I urged the Accounting Officer to follow up the accountabilities from the beneficiaries or
have the funds recovered.

74.3 Refunds of borrowed funds from operational account for project activities

A review of the project expenditure under TMEA cash book revealed that UGX. 89,721,984 were refunded to the operations account. See table below.

<table>
<thead>
<tr>
<th>Doc. No.</th>
<th>Pay Date</th>
<th>Description</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOU216433</td>
<td>11/23/2012</td>
<td>URA Operations A/C</td>
<td>24,500,000.00</td>
</tr>
<tr>
<td>BOU216466</td>
<td>1/25/2013</td>
<td>Uganda Revenue Authority</td>
<td>55,365,984.00</td>
</tr>
<tr>
<td>BOU216494</td>
<td>6/12/2013</td>
<td>Uganda Revenue Authority</td>
<td>9,856,000.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>89,721,984</td>
</tr>
</tbody>
</table>

However, the borrowing of operational account funds to meet project activities, which were fully funded with a balance of UGX.322,553,325 at year-end, were not explained. The borrowings may stifle the budgeted activities. Authority to borrow was not provided when requested.

I advised management to always ensure that all borrowings are authorised and to avoid the practice in future.

75.0 CAPITAL MARKETS AUTHORITY- YEAR ENDED 30TH JUNE 2013

75.1 Status of Prior Year Audit Recommendations

The status of implementation of prior year audit recommendations is indicated in the table below;

<table>
<thead>
<tr>
<th>Issue</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>There were instances where withholding tax was withheld from payments to the tax authorities on incomes for which withholding tax is not a final tax. The Authority being a tax exempt organization, such tax is recoverable from URA.</td>
<td>Based on the correspondences with URA, the costs of recovering the amount of UGX.114,000 outweigh the benefits as the Authority will be required to undergo a tax audit before receiving a refund.</td>
</tr>
</tbody>
</table>

76.0 PRIVATIZATION AND UTILITY SECTOR REFORM PROJECT – DIVESTITURE AND REDUNDANCY ACCOUNTS (PUSRP) 30TH JUNE 2013

253
76.1 **Redundant bank accounts**

It was noted that the entity had six (6) bank accounts under divestiture, three (3) of which were found redundant with aggregated amounts of UGX.560,142,515. No payments or deposits were made on the accounts during the year under review. One of the accounts was being eaten up by bank charges. The details of the bank accounts are as per the table below:

<table>
<thead>
<tr>
<th>Account No</th>
<th>Bankers</th>
<th>Bal. as at 30th June 2012</th>
<th>Interest received</th>
<th>WHT</th>
<th>Bank charges</th>
<th>Bal. as at 30th June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>014/00/075168/01</td>
<td>Stanbic Bank</td>
<td>489,258,323</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>489,258,323</td>
</tr>
<tr>
<td>01056-108607-00</td>
<td>Standard Chartered</td>
<td>32,205,623</td>
<td>-</td>
<td>-</td>
<td>360,000</td>
<td>31,127,378</td>
</tr>
<tr>
<td>010336001</td>
<td>Citibank U Ltd</td>
<td>39,127,378</td>
<td>393,610</td>
<td>78,893</td>
<td>-</td>
<td>39,756,814</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>560,142,515</strong></td>
</tr>
</tbody>
</table>

The accounts will be assessed on a case by case basis and a decision made on use of funds as provided by the PERD Act.

I advised management to reassess the need to keep all these accounts, otherwise they should be closed and the funds transferred to the consolidated account.

76.2 **Budget Performance**

A review of budgeted activities and the outputs revealed the following:

76.2.1 **Lack of revenue budget**

It was noted that management had not budgeted to receive any revenue although expenditure was estimated at UGX.193,583,800,000 as supported by the work plans. The table below shows how much was estimated expenditure per department:

<table>
<thead>
<tr>
<th>Sectors/ Dept</th>
<th>Budgeted Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatization Unit</td>
<td>10,285,000,000</td>
</tr>
<tr>
<td>PPP (Public private partnership) Activities</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td>PMU (Parastatals monitoring unit)</td>
<td>2,823,800,000</td>
</tr>
<tr>
<td>Legal Dept.</td>
<td>178,975,000,000</td>
</tr>
<tr>
<td><strong>Total estimated expenditure.</strong></td>
<td><strong>193,583,800,000</strong></td>
</tr>
</tbody>
</table>

UGX.1,809,000,000 was received as interest income, foreign exchange and gains, property rentals and concession fees. Budgeting for expenditure without revenue anticipation causes uncertainty in operations. The basis of coming up with these budget
estimates could not be supported.

Management explained that it is unable to predict with certainty the incomes from the activities as the crystallization of the divestitures are unpredictable.

I advised management to always endeavor to make ascertained revenue estimates before the expenditure estimates are made.

76.2.2 Uncertain expenditure estimates

During the year under review, management had estimated to spend UGX.193,583,800,000 as per the work plans, however the actual expenditure as per draft accounts was UGX.16,852,000,000 (8.7% of the budgeted expenditure). A sum of UGX.2,098,000,000 was not spent at the close of the year. The reason for keeping such huge funds even when a bulk of the activities was not undertaken could not be explained.

The Accounting Officer explained that budget execution depends to policy directives that often change and affect performance.

I urge management to always endeavor to make realistic budgets.

76.2.3 Activity performance monitoring

It was noted that the four departments of PU Divestiture had budgeted to spend UGX.193,583,800,000 on their activities. However only UGX.16,852,000,000 was spent on 2 (two) of the departments. It was further noted that no funds were spent on PPP and PMU activities. The table below gives summary of what was budgeted per activity and what was spent.

<table>
<thead>
<tr>
<th>Sectors/ Dept</th>
<th>Budgeted Amount billion (UGX.)</th>
<th>Actual Spent billion UGX.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatization Unit</td>
<td>10.3</td>
<td>12.4</td>
</tr>
<tr>
<td>PPP (Public Private Partnership) Activities</td>
<td>1.5</td>
<td>Nil.</td>
</tr>
<tr>
<td>PMU (Parastatals Monitoring Unit)</td>
<td>2.8</td>
<td>Nil.</td>
</tr>
<tr>
<td>Legal Dept.</td>
<td>178.9</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Budget for the Year</strong></td>
<td><strong>193.5</strong></td>
<td><strong>16.8</strong></td>
</tr>
</tbody>
</table>
No single activity from all the four departments was fully completed. Failure to implement the planned activities affects the fulfillment of the objectives of the Unit. The Accounting Officer explained that activities were not undertaken as planned because of policy changes and administrative approvals over which the entity exercise little control.

I advised management to endeavor to deliver as planned for effective and efficient service delivery.

77.0 NATIONAL PLANNING AUTHORITY

77.1 Payables for salaries for the months of May and June, 2013

UGX.588,300,700 was disclosed as un-paid staff salaries for May and June 2013. A review of the statement of appropriation account revealed that UGX.5,051,324,467 was budgeted for employee costs and UGX.5,051,324,188 was spent implying that the total budget was realized. It also implies that the accumulation of salary arrears was not warranted.

Management explained that the shortfall in salary payments was caused by non-provision of staff salary increments due to MTEF limitations by MoFPED.

I urged management to liaise with the responsible Ministry and have the salary increments allocated and paid.

77.2 Vacant positions

A review of the authority structure/establishment indicated that whereas 119 posts were approved only 64 had been filled leaving 55 posts vacant. The vacant posts include that of key technical officers such as the Deputy Executive Director, Senior Technical Advisor and Senior Accountant among others. The absence of such essential staff may negatively impact on the entity's level of service delivery.

The Accounting Officer explained that the authority has embarked on filling the vacant positions.

The outcome of the above action is awaited.

77.3 Procurement issues
77.3.1 **Lack of user departments procurement plans**

It was noted that the user departments did not prepare their procurement requirements to be aggregated in the overall procurement plan. The practice is contrary to Section 96 of the PPDA Act which requires user departments to prepare procurement budgets. It was further noted that the procurement plan contained in the policy statement had block figures without a breakdown to show which items were to be procured and the corresponding costs.

The omission poses the risk of un-coordinated procurements and possibility of procuring non priority items at the expense of priority ones.
I have advised management to ensure that annual procurements on the departmental submission are in line with procurement regulations.

77.3.2 **Violation of PPDA regulations on micro procurements**

It was noted that the authority procured goods and services worth UGX.83,670,689 using micro procurement method. However, these were not reported to the contracts committee and published on the entity’s notice board contrary to Section 118 (8) of the PPDA regulations.

I advised management to always ensure compliance with the procurement regulations.

77.4 **Failure to conduct an annual vehicles inspection**

Section {F-i (7-d)}, of the Uganda Public Service Standing Orders 2010 require every Government vehicle to be subject to an annual inspection, irrespective of age or condition. Contrary to the above, the Authority did not subject its fleet of 25 vehicles to an annual inspection as there were no records to confirm so.

There is a risk that some of the vehicles maintained could be due for disposal, yet incurring high repair costs. I advised management to comply with set regulations to ensure effective fleet management.

77.5 **Vehicles that have over stayed in garages**
It was noted that 8 out of 25 vehicles of the Authority had been in two different garages for a period of 3 to 12 months. Details in table below:

**Schedule showing vehicle in privately owned garages**

<table>
<thead>
<tr>
<th>Vehicle No.</th>
<th>Type</th>
<th>Garage</th>
<th>Date of last travel as per log book</th>
<th>Period of stay in garage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAA 265F</td>
<td>Pajero</td>
<td>Wamuko Motors (U) Ltd</td>
<td>1/6/2012</td>
<td>According to the garage staff, it has been in for 12 months</td>
</tr>
<tr>
<td>UAA 355F</td>
<td>Toyota Land Cruiser</td>
<td>Eagle Motors Ltd</td>
<td>No travel log book</td>
<td>According to the garage staff, it has been in for 6 months</td>
</tr>
<tr>
<td>UAA 427N</td>
<td>Nissan Hard Body</td>
<td>Eagle Motors Ltd</td>
<td>31/5/2012</td>
<td>According to the garage staff, it has been in for 6 months</td>
</tr>
<tr>
<td>UAA 710E</td>
<td>Ford Ranger</td>
<td>Wamuko Motors (U) Ltd</td>
<td>12/9/2012</td>
<td>According to the garage staff, it has been in for 6 months</td>
</tr>
<tr>
<td>UAA 875E</td>
<td>Nissan Hard Body</td>
<td>Eagle Motors Ltd</td>
<td>No travel log book</td>
<td>According to the garage staff, it has been in for 6 months</td>
</tr>
<tr>
<td>UAA 985E</td>
<td>Nissan Hard Body</td>
<td>Eagle Motors Ltd</td>
<td>24/7/2013</td>
<td>3 months</td>
</tr>
<tr>
<td>UAJ 301X</td>
<td>Toyota Hilux</td>
<td>Wamuko Motors (U) Ltd</td>
<td>15/6/2011</td>
<td>According to the garage staff, it has been in for 6 months</td>
</tr>
<tr>
<td>UAA744E</td>
<td>Ford Ranger</td>
<td>Eagle Motors Ltd</td>
<td>No travel log book</td>
<td>3 months</td>
</tr>
</tbody>
</table>

Further, there were no pre-repair inspection reports together with job-cards to indicate the nature of repairs requested for and the time limit within which the repairs were expected to be completed.

Leaving vehicles to overstay in the garages poses the risks of possibility of theft of vehicle parts and deterioration in value.

The Accounting Officer explained that because of the limited resources and delays in releases of funds, timely payments to the garages could not be made. He further explained that due to the current ban on purchase of motor vehicles by the Government the Authority could not dispose-off all the old fleet as replacement would not be possible.

I urged management to deliver vehicles to the garages basing on availability of funds.
Management is also advised to liaise with Ministry of Works and have an engineer allocated to perform pre and post repair inspections.

77.6 **Un-accounted for field travel advances-UGX.29,754,500**

UGX.29,754,500 was paid to various officers to carry out field activities in different parts of the country. However, accountabilities were not availed to confirm that the activities were actually carried out. This was contrary to Section 181 of the TAIs. As a consequence, I was unable to ascertain that the funds were put to the intended purposes.

I have advised management to consider recovering these funds from the responsible officers.

77.7 **Lack of budget management and control by departments**

It was noted that the Authority budget allocations for the various departments were centrally controlled by the Accounting Officer and head finance without the input or consultations of the departmental heads. The heads of departments did not have control to initiate payments and monitor the implementation of activities budgeted for under their departments.

Lack of ownership and control over departmental budgets and implementation of activities may negatively affect the efficiency and effectiveness of the departmental heads.

I advised management to decentralize budgeting by empowering all departments equitably to ensure ownership and full effective realisation.

77.8 **Budget Performance**

It was observed that management did not achieve some of its set targets. From a selected sample of the planned outputs for the year, the following 4 activities indicated below were not achieved.

- Production of the 10-year perspective plan
- Establishment of National Spatial data infrastructure and Spatial Plans
• Development and operationalization of the NDP M&E system
• Strengthening of NPA’s management and operational capacity

The Accounting Officer explained that NPA suffered big budget cuts that affected the delivery of some of planned activities.

I advised management to liaise with the MoFPED to ensure the approved resources are released.

78.0 MICROFINANCE SUPPORT CENTRE LIMITED

78.1 Lack of a fully constituted board of directors
Sec 8 (a) of the Articles and Memorandum of Association of the company states that “The Company shall have a Board of Directors of nine members, eight of whom shall be elected by the Minister and approved by the general meeting for a term of 3 years. A director shall be eligible for re-apPOINTment for another term not exceeding 3 years”.

However during the review of the company’s corporate governance structure, it was noted that the Board of the Company is not fully constituted with only six (6) directors elected by the Minister of Finance Planning and Economic Development.

Without a fully constituted board, there is a possibility that the sitting board may not effectively determine the company’s strategic objectives and policies, monitor the progress towards achieving the objectives and policies among others.

Management explained that the two Directors retired at the Extra-Ordinary General Meeting of the Company in September 2012, however the matter was being followed up so that the nominated Board members are approved at the next General Meeting of the Company scheduled to take place in May 2014.

I await the outcome of management’s efforts to have a fully constituted Board of Directors.

78.2 Illegally constituted audit committee
Section 7 (7) of Table F (Code of Corporate Governance) of the Companies Act 2012 states that an “audit committee shall be composed of chairperson and at least three other persons of reputable integrity not being members of the board”.

During the audit, it was noted that the Audit and Compliance Committee was composed
of members of the Board of Directors (Chairperson and one member).

Management explained that the Code of Corporate Governance in the Companies Act 2012 was discussed by the Board in November 2013 under MIN.64/11/2013 and in February 2014 under MIN.15/02/2014. Management further explained that the Board had resolved to bring this matter to the attention of Shareholders for implementation at the next General Meeting of the Company scheduled to take place in May 2014.

I await the outcome of management’s efforts to comply with the Companies Act 2012.

78.3 **Inadequate staffing at the zone**

During the audit, it was noted that the Kabarole zone had a loan portfolio of UGX 9.71 billion as at 30/06/2013. By structure, a zonal office is supposed to have a Zonal Manager (ZM), 2 Credit Officers (CO), a Finance Officer (FO), an Administration Assistant (AA) and Logistics Assistant (LA).

During the audit it was noted that, the zone was being operated by one technical officer (Zonal Manager) with the assistance of a volunteer hired on short term contract.

Under staffing could result into poor monitoring and supervision of loans at the zone and which may lead to an increase in arrears and mismanagement of loans by the borrowers. In addition, use of short term staff to appraise, assess, recommend and monitor loans of over 3 years poses a serious credit management risk.

Management explained that the required staffs were recruited and they reported on duty effective 15th July 2013. I await improvements in zonal office operational performance.

78.4 **Staff in acting positions**

Section 6.5 of the revised Human Resource Manual states that “Acting appointments shall not exceed four (4) months unless in special circumstances approved by the Executive Director or the Appointing Authority”

A review of the Company’s compliance to policies and procedures revealed that many staff were in acting positions and some staff had been in acting positions for more than four months (since 2011). This contrary to Human Resource Manual and may demotivate staff and negatively impact on operational efficiency of the company.
Management explained that the Board of Directors together with the Executive Director were suspended and the company operated for over 4 months without Board which affected recruitment of staff from level 1 to 5.

I advised management to ensure compliance with Human resource manual.

78.5  **Credit Risk Management**

78.5.1 **None adherence to loan terms**

Loan agreements terms and conditions signed between MSC and borrowers require borrowers to provide post disbursement monitoring reports, loan utilization reports and accountabilities.

However during field visits to various zonal offices, it was noted that some borrowers (clients) who accessed loans from MSC did not submit the above reports. These borrowers include;

- Nyati Rice Processors Limited,
- World Savana Company Limited,
- Buhimba Cooperative Savings and Credit Society Limited,
- Mairirwe Cooperative Society Limited,
- Hofokam Limited, Agahikaine Women SACCO.

Non-compliance to loan agreement terms and conditions by borrowers may lead to mismanagement of funds by the borrowers and write offs by management.

Management explained that routine monitoring of the loan funds utilization are carried out and that some clients submit reports after several visits and reminders.

I advised management to ensure that clients submit loan utilization reports on time.

78.5.2 **Doubtful SACCO**

On 8 February 2012, MSC represented by the Zonal manager and the Credit Officer signed a loan agreement with Busunga Cooperative Savings and Credit Society Limited amounting to UGX 35 Million. The proposed area of operation for the organization
according to the registration was in Bundibugyo district, Busungu Trading Centre (Busunga Sub-country) and the surrounding areas.

Section 14 of the loan agreement (Security) states that the loan was secured on the following grounds:

- A floating charge on all its loan portfolio, fixed assets and floating assets of the company.
- A resolution to borrow passed at the AGM held by members of the Society.
- Personal guarantees for UGX 40 Million, plus interest that accrues thereon by the Chairman, Treasurer and Secretary accompanied by a list of their assets and liabilities, and that their liability shall rank pari passu with that of the Borrower JOINTLY AND SEVERALLY, copies of their most recent identification documents such as passports.

During our review of documents pertaining to Guarantor’s assets, it was noted that the Chairperson of the organization Offered 45 Acres of Land worth UGX 54,000,000. Furthermore, the Treasurer of the organisation offered 60 Acres of land in Mirambi Sub-county worth UGX 72,000,000.

However I was not availed with any documentation in respect of a certified surveyor in determining the value of the above pieces of land. In addition, there was no legal due diligence carried out by the Legal Department of MSC to determine existence and rightful owners of the land in question.

On 8 February 2012, Kabalore Zonal Manager requested the Head of Finance MSC to disburse UGX 35,000,000 to Busunga Cooperative Savings and Credit Society Limited.

During our field verifications, it was noted that the District Commercial Officer-Bundibugyo district, Internal Security Officer in charge of Bubandi Boarder post, former chairperson L.C 3 (Mr. Kawawa Rashid) all appeared not to have any knowledge of existence of the organisation in the area. According to the Chairperson LC.3, the only SACCO in the area is Bubandi Rural SACCO.

From the above inconsistencies in the credit process, there are indications of possible collusion between the officials who appraised the loan (Former Zonal manager and Credit
Officer) and the culprits in disguised guarantors as well as the proprietors of the ghost institution to defraud the Microfinance Support Centre Limited.

Management responded that the case was referred to the Inspector General of Police, and was under investigation.

I await the outcome of the Inspector General of Police’s investigation.

79.0 **UGANDA BUREAU OF STATISTICS**

79.1 **Mischarge of expenditure**

The Parliament of Uganda 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 and MTEF codes. A review of the Ministry’s expenditures revealed that the entity charged wrong expenditure codes to a tune of UGX.231,015,454. Such a practice is contrary to the intentions of the appropriating authority and leads to incorrect reporting.

Management in response stated that the mischarge was highly regrettable but has since improved the budgeting process to take into account areas of priority.

I advised Management to desist from such a practice and always request for reallocations or virements, as provided for under the TAI.

79.2 **Expired strategic plan**

The entity did not have in place an approved strategic plan. Lack of a strategic plan implies that the implementation of activities aimed at achieving the entity’s mission and long term objectives may not be properly guided. This may have an impact on the organizational performance and attainment of expected outputs.

Management explained that the new strategic plan was in draft form awaiting approval by the Board.

I advised management to expedite the approval process and have the plan in place.

79.3 **Use of non-prequalified service providers**

PPDA regulations require that all procurements should be sourced from pre-qualified
providers in order to adhere to the principles of transparency, fairness and value for money. It was however observed that procurements worth UGX.13,725,000 were sourced from non pre-qualified providers.

The practice is against procurement regulations.

The Accounting Officer promised to abide by the guideline in all future procurements.

The action is awaited.

79.4 **Staffing gap**

The entity had a staff establishment of 284 but only 209 (74%) posts were filled leaving 75 (26%) vacant. Vacant staff posts could negatively impact on service delivery of the organization.

The Accounting Officer explained that he is in the process of filling the structure and this exercise is expected to be concluded by the end of the financial year 2013/14.

I advised management to ensure that the process is expedited.

79.5 **Unsupported UTL deposits**

UGX.15,345,000 was paid as a deposit to Uganda Telecom Ltd (UTL) for telecommunications services. It was noted that the payment was for an amount that was brought forward from the previous year but lacked details. In the circumstances, I was unable to confirm that the balance was for services utilized by the entity.

I advised the Accounting Officer to make a follow up on the payment and ensure that the details are obtained.

79.6 **Refund for printing Board charts and a portrait for**

UGX.7,050,000 was refunded to an officer for printing board charts and a portrait. The accountability attached was in form of an invoice and an acknowledgement receipt. The following anomalies were noted:

- There was no LPO raised to support the procurement contrary to PPDA regulations.
- The supplies were not witnessed by the store keeper contrary to PPDA regulations.
There was no deduction of the 6% WHT of UGX.423,000 (7,050,000 x 6%) as required by the tax regulations.

The procurement was paid by cash which is contrary to TAI.

The Accounting Officer promised to abide by procurement guidelines in all the future procurements.

I await for management’s commitment on the matter.

79.7 **Repairs not supported by pre and post inspection repair reports**

UGX.71,419,114 was paid in respect of motor vehicle repairs but were not supported by pre and post repair inspection reports contrary to Sect. 816 of the Treasury Accounting Instructions.

Although the Accounting Officer explained that a pre and post inspection for major repairs was done by the allocated motor vehicle engineer seconded by the Ministry of Works and Transport, other repairs were not.

I advised the Accounting Officer to follow the TAIs procedures and fully utilize the allocated engineers.

80.0 **UGANDA BUREAU OF STATISTICS SUPPORT TO FIRM DATA GENERATION (SFDG) PROJECT**

80.1 **Compliance with Financing Agreement and GoU Financial Regulations**

It was noted that management complied in all material respects with the covenants contained in the financing agreement and Government of Uganda Financial Regulations except for the following instances;

80.2 **Project Funding**

A summary of indicative activities and budget disbursements provided in the project document shows that the total amount required for the project was USD 310,000 of which MoFPED was to provide USD 250,000 while UBOS was to provide USD 60,000. However, it was noted that these funds were not provided and instead an equivalent of USD.30,000 was secured from IDA during the year.
The shortfall in project financing led to failure to undertake the following activities:

- Uganda Business Register
- Uganda Business Enquiry

Management explained that UBOS was in discussion with the Ministry of Finance on how such partnerships and funding can be made good.

I urged management to continue pursuing this course of action to ensure that all project activities are funded and implemented.

### 80.3 Doubtful expenditure

Section 181 of the TAI requires all vouchers to contain full particulars of each service or goods and be accompanied by such supporting documents as may be required so as to enable them to be checked without reference to any other documents. Contrary to the provisions UGX.9,117,142 in respect of insurance and stationery was not accounted for.

I have advised management to ensure that all the accountability is obtained or institute recovery measures from the responsible staff.

### 80.4 Non deduction of withholding tax of

UGX.11,184,120 was paid to qualifying companies for supply of goods and services. However, it was noted that withholding tax was not deducted contrary to the provisions of the Income Tax Act. Details in the table below;

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Code</th>
<th>Amount</th>
<th>WHT Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.10.2012</td>
<td>UBI Analysis Consultant</td>
<td>315534</td>
<td>6,213,400</td>
<td>No WHT deduction made</td>
</tr>
<tr>
<td>11.12.2012</td>
<td>10% Deposit on Progress Rep</td>
<td>315866</td>
<td>2,485,360</td>
<td>No WHT deduction made</td>
</tr>
<tr>
<td>12.12.2012</td>
<td>10% Deposit on Progress Rep</td>
<td>315884</td>
<td>2,485,360</td>
<td>No WHT deduction made</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>11,184,120</strong></td>
<td></td>
</tr>
</tbody>
</table>

Failure to withhold taxes could lead to penalties in accordance with the tax law.

I have advised management to comply with both the tax requirements and recover the WHT for remittance to URA.

### 80.5 General Standard Of Accounting and Internal Control
A review of the following areas was carried out:-

- Accounting system and policies.
- Book keeping.
- Management and control of both bank and cash accounts.
- Purchases and payments.
- Fixed assets management.

It was noted that management’s control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of, and accountability in the project.

81.0 **UGANDA BUREAU OF STATISTICS - STRENGTHENING EVIDENCE BASED DECISION MAKING II (SEBDM II) PROJECT**

81.1 **Compliance with the key Covenants of DFID funding Agreement and GOU Financial Regulation**

It was noted that management had in all material respects complied with the covenants contained in the financing agreement and Government of Uganda financial regulations except for the matter below;

81.1.1 **Value Added Tax (VAT) paid out of DFID funds**

Value Added Tax (VAT) of UGX.34,956,255 was paid to suppliers of goods and services contrary to Paragraph 6 in the Memorandum of Understanding, which prohibits DFID funds to be used to meet the cost of any other taxes or duties, fees or similar charges imposed directly or indirectly.

Management explained that the freeze of transactions on the DFID account led to the delay in reimbursing the VAT component to DFID.

I advised management to refund the money applied to activities outside the recommendations in the Memorandum of Understanding to ensure compliance with its provisions. I further advised management to seek a “No objection” in future from DFID for such activities.

81.2 **General Standard of Accounting and Internal Control**
It was noted that management had instituted adequate controls to monitor and manage the Project resources except for the matter below;

81.2.1 **Unutilized and unaccounted for funds with MDAs under the National Statistical System**

By 30\textsuperscript{th} June 2013, there was cash at bank with MDAs amounting to UGX.352,174,477 unutilized and funding amounting to UGX.255,489,148 advanced in the previous year was not accounted for. I was unable to confirm that the unaccounted for funds were utilised for the intended activities.

Management explained that it had put in place a Senior Accountant to directly and routinely follow up with accountabilities for this programme. They further explained that in cases of MDAs where laxity in accountability has been observed, an internal disbursement embargo had been put in place to enforce timely accountability.

I advised management to follow up the MDAs or funds be recovered where no accountability is availed.

82.0 **UGANDA BUREAU OF STATISTICS-SUPPORT TO THE UGANDA PANEL SURVEY PROJECT**

82.1 **Compliance With Financing Agreement And Gou Financial Regulations**

It was noted that management complied with the covenants contained in the financing agreement and Government of Uganda Financial Regulations except for the following instances;

82.2 **Lack of Annual Work plan and Performance Report**

Article 2.04 of the standard grant conditions required the recipient to prepare and submit an annual work plan with a detailed survey budget, outlining the outputs, activities to be performed to achieve the anticipated outcomes, the time frame involved, those responsible for performing the activities and what each activity entailed. In addition, the management of the project was supposed to prepare a performance report about the implementation of the project activities.

The annual work plan and performance report for the year under review were not availed
for verification. In their absence, I was un-able to evaluate the performance of the project in accordance with the planned and approved activities. This implies that there was non-compliance on the part of management with provisions in the grant agreement. This issue was also raised in my previous report to Parliament.

I have advised management to ensure that they prepare periodic project work-plans and performance reports to enable compliance and assessment of delivery of project outputs.

82.3 Expenditure not properly accounted for

A sum of UGX.1,500,000 paid towards UNPS stakeholders meeting lacked supporting documents detailing the nature of the meeting, list of attendance, agenda outlining the objectives of the meeting, post meeting report detailing achievements and any other relevant documentation as evidence of occurrence. The funds therefore remained unaccounted for. I could not establish whether the funds were put to proper use.

I advised management to ensure that project expenditure is properly supported. In the meantime, these funds are recoverable.

82.4 General Standard of Accounting and Internal Control

A review of the following areas was carried out:-
- Accounting system and policies.
- Book keeping.
- Management and control of both bank and cash accounts.
- Purchases and payments.
- Fixed assets management.

It was noted that management’s control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of, and accountability in the project.

83.0 BANK OF UGANDA

83.1 Clarification of Government securities prior to 1 July 2012

I reviewed the government position as at 30 June 2013 and the total public debt now stands at about UUGX.7.0 trillion. Included in the public debt is an amount of UUGX.5.1
Trillion relating to government securities, which had been issued prior to 1 July 2012. Whereas the list of the issued Government securities is available, there is no clear distinction between those issued for monetary and fiscal policy. However, effective 1 July 2012, the Government clarified that Bank Uganda is responsible for monetary policy and Government securities will be issued for purposes of fiscal policy. Therefore all costs and benefits of monetary policy effective 1 July 2012 are now borne by BOU. No clarification has been made in respect of the old stock of government securities outstanding as at 1 July 2012 as to whether they will be treated as fiscal or monetary instruments going forward.

Lack of clarity may not allow the central bank to fulfill effectively one of its core roles as a banker to government as well as maintain sound monetary policies and respond adequately to economic challenges.

Management accepted that the status of the existing instruments for fiscal and monetary policy should be clarified formally. This is being addressed through a MOU to be agreed between the BOU and MFPED. In addition, Government will soon re-organize its accounts within the BOU to introduce a Single Treasury Account (STA). All of the proceeds of Government securities issued for fiscal policy will then be paid into the STA, and the securities will be redeemed from funds in the STA. The proceeds of any securities issued for monetary policy purposes will not be held in the STA.

In addition, Government has proposed amendments to the Public Finance Bill which among others include a requirement that the proceeds from treasury securities issuance for monetary policy purposes will be held in a special fund.

I advised management to clarify the status of the existing instruments between fiscal and monetary especially due to the fact that Bank of Uganda is now fully responsible for monetary policy. Going forward, the use of these securities by the Treasury should be done in line with the monetary program managed by Bank of Uganda.

83.2 Temporary advances to Government

Section 3 (2) of the Bank of Uganda Act requires the Treasury, at the beginning of each financial year to identify and submit to the Central bank all its requirements for temporary advances for that year.
During the audit, I noted instances where the Bank advanced money to the Government by paying off its obligations as and when they fall due and request for re-imbursement. I was not availed with any prior requests by the Treasury to support the advances noted below;

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Amount (UGX)</th>
<th>Date paid</th>
<th>Date refunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount on treasury bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45220-T-BOND-3-03-JAN-13</td>
<td>1,969,558,267</td>
<td>3-Jan-13</td>
<td>25-Mar-13</td>
</tr>
<tr>
<td>Interest on treasury bills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45220-T-BILL-91-06-JUN-13</td>
<td>107,802,760</td>
<td>6-Jun-13</td>
<td>9-Jul-13</td>
</tr>
<tr>
<td>45220-T-BILL-91-20-JUN-13</td>
<td>25,600,222</td>
<td>20-Jun-13</td>
<td>9-Jul-13</td>
</tr>
</tbody>
</table>

Processing of temporary advances without supporting requirements from the Treasury contravenes the established internal controls and standing practices.

Management explained that the MOU which will set out formal arrangements for the BOU to grant temporary advances to Government, in a manner which is consistent with the law is being finalized and will be signed by the BOU and MFPED.

I advised the management of Bank of Uganda to liaise with the Ministry of Finance and determine its requirements for temporary advances as required by Bank of Uganda Act. Alternatively, Bank of Uganda and Ministry of Finance can have a memorandum of understanding which allows the Bank to debit designated government account without going through a time consuming process of seeking for reimbursement.

### 83.3 Unrecovered drawdown from Government

As at 30 June 2013, UGX.136 billion was outstanding as a receivable from Government
of Uganda brought forward from prior years. Management did not obtain instructions from the Ministry of Finance, Planning and Economic Development to recover this amount during the year. As such, no repayments or off sets were made in the last twelve months.

A long outstanding drawdown may be deemed to be a loan which may require the Bank to test it for impairment. There is also the opportunity cost of earning a return to cover the increased cost base.

Management explained that it is in contact with the MoFPED to resolve this issue and I was informed that BoU has no authority to debit the Uganda Consolidated Fund. Meetings have been set up with the Ministry of Finance to discuss the modalities for recovery of the above amount.

I advised management to engage the MOFPED and obtain authorization to offset the outstanding amount. If that is not obtained, the Bank should consider treating the amount as a loan, charge interest and test it for recoverability.

83.4 Declining Performance of the Bank

Whereas the Bank has performed very well on its core functions such as Governance and policy, Banking and currency management, regulation & supervision of the financial sector, monetary policy management etc, the Bank incurred UUGX 203 billion in executing these core mandates/roles.

From my review and analysis of operating results, I have noted that the operating results of the Bank have been deteriorating over the past three to four years. The returns from the investments of foreign reserves have not been able to generate adequate returns to match the level of expenditure required for the Bank to execute its mandate.

The summary of performance is as summarized below:

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest income</td>
<td>126,886</td>
<td>59,161</td>
<td>45,023</td>
</tr>
<tr>
<td>Net operating income</td>
<td>1,093,529</td>
<td>(359,306)</td>
<td>221,641</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>(386,477)</td>
<td>(241,120)</td>
<td>(313,313)</td>
</tr>
<tr>
<td>Net(Deficit)/Surplus</td>
<td>707,052</td>
<td>(600,426)</td>
<td>(85,502)</td>
</tr>
</tbody>
</table>
In order to boost the capital requirements of the Bank, management has been in discussions with the Ministry of Finance with the view of capitalizing the Bank. During the year, the Bank got approvals from the Ministry of Finance to issue Government securities amounting to UUGX.410 billion as part of the recapitalization programme.

If the operating results do not improve, the capital injected can easily be wiped out in the near future by operational losses, which are likely to increase given that BOU now bears all costs of monetary policy. During the year the Bank incurred approximately UUGX.37 billion as monetary policy costs.

Whereas Bank of Uganda Act provides mechanism in which Government through Ministry of Finance can compensate or recapitalize the Bank based on operating losses incurred, the process of negotiation usually takes a long time and in such moments the Bank may not be in position to adequately execute its roles in the short run due to inadequate capital requirements. Insufficient capital may limit the Bank to adequately respond to the market requirements/challenges as and when they arise.

Management explained that discussions are ongoing between Bank and the MoFPED on how best to recapitalize the Bank in accordance with Sec 14(4) of the Bank of Uganda Act. Management is currently working on proposals about an adequate capital structure of the Bank and will propose amendments to the current law to deal with the limitations of the current capital structure. However, the Bank will continue to carry out its core operations in accordance with Articles 161 and 162 of the Constitution of the Republic of Uganda, 1995, the Bank of Uganda Act and other relevant laws of Uganda without fail and regardless of whether the Bank is profit making or not.

I have advised management to continue negotiating with the Ministry of finance in light of the current economic challenges and determine the suitable capital structure which allows the Bank to respond to the market challenges without limitation, and to minimize the frequency of the Bank going back to Ministry of Finance for recapitalization.

83.5 **Use of a generic super-user account to complete CDS transactions**

Access rules in the Central Depository System (CDS) are role based. Controls are defined during user creation to ensure that a user is not assigned conflicting roles (for example
Creator and Approver roles at the same time).

From inspection of a system generated report of users on CDS and their respective roles, I noted a user account named “CDS” that has been assigned conflicting roles. [Refer to Appendix 1.1] This user account has super user privileges with full access to all business functions/modules.

The “CDS” account is accessed by the CDS system administrator in IT department and is used to facilitate the following transactions:

- System Administration (for example user accounts administration)
- Execution of automated CDS tasks (for example scheduled payments)
- Facilitate backend intervention whenever normal execution of transactions fails

I did not obtain a system generated audit trail to show all transactions initiated by this CDS account both on at the database or application level for inspection. I also noted that for all transactions performed by CDS, a distinction could not be established between transactions that have been executed automatically and those that could have been initiated manually in order to review the manually initiated transactions. As such, unauthorized use of the CDS account is not verifiable since system transactions and manually initiated transactions cannot be distinguished. Under the circumstances, a user may create and approve unauthorized and/or fraudulent transactions in the system which has not been approved by management hence exposing the business to fraud risk.

Management explained that Repo initial payments are made by users and the second leg payments are automatically made by user ‘CDS’. In case of a problem with the system, the system administrator may log in as user ‘CDS’ and create or modify a transaction. It is not possible to differentiate between the payments made by the system as CDS and those of individuals who have logged in as CDS. The replacement system, Central Securities Depository – CSD - is going live in September 2013, and the segregation of duties matrix (User rights catalogue) shall be developed for the replacement system – CSD.

In the interim, as the Bank awaits a new system implementation, I recommended the following:
• All CDS transactions should be completed using accounts that are identifiable to specific users to facilitate accountability. Should the need arise to use the “CDS” account, the executed transactions be reviewed regularly by the business owner to determine if they are all in line with achieving business objectives.

• Management should consider having the CDS account password under dual protection (one business user and one IT user) to enhance accountability in use of that account;

• Management should develop segregation of duties matrices for all the Bank’s Information processing Systems. The matrices which contain user roles and permissions should be the basis of defining user roles in the system;

• The matrices, user roles and permissions configuration need to be regularly reviewed to ensure any segregation of duties conflicts are identified and rectified; and

• I also recommend that management regularly reviews user rights that have been defined in the system for all users across all business units to ensure that there are no segregation of duties conflicts.

83.6 Government Payments from the Ministry of Finance

I noted that whereas the payment instructions from the Ministry of Finance are received at the Ministry Server (at Bank of Uganda) in encrypted version, these payment instructions are decrypted before they are processed in BBS. While in the BBS queue awaiting processing, the payments file is editable hence can be manipulated.

I also noted that while processing foreign currency like USD, the figures that have decimal points (for example 401.76) are rejected by BBS. This is resolved by a manual process by which clearing house staff manually captures the payment instructions in ECFMS and clear the payments like ordinary internal bank payments. Reconciliations with BBS are then performed thereafter.

Likewise, on loading payment files onto RTGS, I noted that this process is completed entirely by one staff. No checker controls have been defined to ensure accuracy and correctness of the settlements that are ultimately being made to the commercial banks. Management explained that the access to the folder is restricted to the BBS administrators and that BOU plans to put in place a means of auditing access to this folder. It was also explained that this is a system limitation which affects two modules’
and management has discussed this issue with the system vendors – Oracle which is currently investigating potential solutions or workarounds to resolve the issue. However, a mitigating factor is that the exposure is low.

It was also explained that the system does not have the functionality for automatic upload of batches. Additionally it is not practical to manually approve over four hundred (400) transactions.

I advised management to consider looking into possible avenues of restricting access of files that are loaded into BBS for processing. Sufficient maker-checker controls should be implemented by the clearing house to ensure correct and accurate capture of payment instructions in ECFMS, and also investigate avenues of reconfiguring the BBS interface to accurately receive and process payment instructions with decimal points.

83.7 Inadequate management review of Benchmark performance results from fund managers

Bank of Uganda has a middle office section within the risk department to among other roles, monitor the performance of fund managers and ensure that they are compliant with all agreed terms.

From my review of correspondence between the fund managers and the Bank, I noted that the following errors on the monthly benchmark performance for JP Morgan (one of the fund managers) had not been detected by the review processes of management as shown in the table below. The errors had been identified by the fund managers themselves when the Bank had actually reviewed them and did not detect the errors.

<table>
<thead>
<tr>
<th>Month of Reporting</th>
<th>Bench Mark per initial return per JP Morgan</th>
<th>Bench mark per corrected report per JP Morgan</th>
<th>Variance</th>
<th>Over/under stated</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>0.13</td>
<td>0.18</td>
<td>(0.05)</td>
<td>Overstated</td>
</tr>
<tr>
<td>March</td>
<td>0.06</td>
<td>0.05</td>
<td>0.01</td>
<td>Understated</td>
</tr>
<tr>
<td>April</td>
<td>0.19</td>
<td>0.07</td>
<td>0.12</td>
<td>Understated</td>
</tr>
</tbody>
</table>

My discussion with management revealed that the Bank doesn’t have sufficient information as regards the benchmark performance results of the fund managers.
I informed the Bank that failure to detect errors by the review processes may expose the Bank to a risk of using inaccurate information for decision making and may as well lead to financial loss.

Management acknowledged the anomaly which was detected and the necessary steps were taken to address the problem. In addition, Management has procured additional compliance monitoring services from the Custodian to provide more assurance and analysis of benchmarks among others.

I advised management to ensure that performance benchmarks by fund managers are obtained and reviewed for accuracy thoroughly every month. Any errors noted should be resolved with the respective fund managers.

83.8 Foreign Exchange Reserve Management – Policy Committee (FERM-PC) met only once during the year

The FERM-PC reviews and makes decisions as regards the management of Foreign Exchange Reserve in accordance with the Bank’s strategic objective of maintaining macroeconomic stability. This committee implements policies, strategies and procedures to guide the investment of the reserves and is mandated to sit on a quarterly basis by the Board to which it ultimately reports.

During my review, I noted that this committee met only once during the year i.e. on the 24 Jan 2013. The committee may not be considered effective, if it does not meet regularly.

Management explained that whereas FERMPC met once, given its significance to the bank, most of the Key issues were discussed by the investment subcommittee and all the operation issues were addressed effectively.

I advised management to ensure that committee meetings are held regularly as per the terms of reference of the committee.

83.9 Withholding tax charges on interest paid by non residents

The Income tax (Amendment) Act section 3 states that “the withholding tax rate applicable for interest payments on government securities to a resident person under section 117 is 20% and 15% for non residents. This was effective 1 July 2012.
During my review, I noted that Bank of Uganda had charged 20% WHT for all interest paid out during the year irrespective of residence status as per the Income Tax Act. (i.e. Non residents should have been at 15% while the residents are at 20%).

Effective 1 July 2013, the income tax Act was however amended to include non residents as well to be at 20%. The 20% WHT charged on interest paid to non residents during the year is not supported by the Income Tax Act and as such may lead to legal disputes and eventually costs to the Bank.

Management explained that the anomaly was detected during the financial year and accordingly contacted URA to harmonize the position because it was not administratively possible to have two different tax rates in the system. URA subsequently harmonized the rate. Any non-residents who come up with claims are referred to URA for refund.

I advised management to always comply with all the requirements of the Income Tax Act.

83.10 Unutilized funds on the Collateral Account

Section 2.9.2.6 of the banking department manual (Revised February 2013) requires any unutilized collateral amounts to be credited back to the respective applicant’s nominated account. I noted instances where there were balances on the collateral account and didn’t relate to any particular Letter of credit.

Examples of such cases are summarized below;

<table>
<thead>
<tr>
<th>LC Applicant</th>
<th>LC Beneficiary</th>
<th>Code</th>
<th>Collateral Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda Police</td>
<td>Unadvised Excess funds</td>
<td>Not applicable</td>
<td>105,705,093</td>
</tr>
<tr>
<td>Electoral Commission</td>
<td>Unadvised funds</td>
<td>Not applicable</td>
<td>197,920,339</td>
</tr>
</tbody>
</table>

I also noted instances where letters of credit had expired but the Bank had not returned the collateral to the applicant’s accounts as shown in the table below;
I informed management that unutilized collateral amounts that are not refunded to the applicant’s accounts are susceptible to misappropriation and hence financial loss.

Management explained that the Bank has contacted the customers and informed them of the status of their respective LCs. Upon receipt of the response, the Bank will take appropriate action.

I advised management to ensure that all collateral are transferred to the applicant’s accounts immediately an LC expires.

### 83.11 Long Outstanding reconciling items on Suspense accounts

The Bank maintains suspense accounts in order to facilitate the various day to day transactions. These suspense accounts are reconciled regularly (daily, weekly or monthly) depending on the nature of the account.

During the audit, I noted instances of long outstanding items some of which date as far back as 30 June 1999. Examples of these are summarized below;
Other suspense accounts that have long reconciling transactions;

<table>
<thead>
<tr>
<th>Date</th>
<th>Account no.</th>
<th>Account name</th>
<th>Outstanding Balance</th>
<th>Period outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Jun-13</td>
<td>001.242031.1</td>
<td>Charity Walk</td>
<td>180,371,750</td>
<td>Since 2006</td>
</tr>
<tr>
<td>30-Jun-13</td>
<td>001.242032.1</td>
<td>Sector Strategic plans for Statistics</td>
<td>8,364,944</td>
<td>Since 2007</td>
</tr>
<tr>
<td>30-Jun-13</td>
<td>001.242035.1</td>
<td>Private Sector Investment survey</td>
<td>6,657,238</td>
<td>Since 2009</td>
</tr>
<tr>
<td>30-Jun-13</td>
<td>001.276007.1</td>
<td>Provident fund</td>
<td>61,468,867</td>
<td>Since 2010</td>
</tr>
</tbody>
</table>

There is a risk that suspense accounts with long outstanding items may be used as an avenue to carry out unauthorized transactions if not investigated and cleared on a timely basis and could lead to financial loss.

Management explained that most of the entries noted above relate to items on the PAI suspense accounts that were caused by the system valuation/pricing flaws which were
brought to the attention of the system vendors. Currently, the variations are resolved by passing manual entries on stock accounts as recommended by the vendors. The system problem is expected to be resolved with the full upgrade of the Integrated Financial System.

As for the charity walk account, it relates to funds contributed by staff as part of the Bank’s corporate social responsibility. Management is in the process of identifying a worthy cause to which this money will be donated.

Other project accounts represent residual balances on Bank run project and the funds will be refunded upon receipt of instructions from the donors. Provident fund relates to outstanding obligations to retired staff.

All the long outstanding reconciling items should be investigated and corrective action taken, and in future, regular and timely reconciliation and close monitoring should be done.

### 83.12 Dormant accounts

During my review of the government deposit accounts, I identified a number of dormant accounts particularly categorized under administered funds. I observed that there had been no activity on these accounts for at least the last two years since the projects they relate to were terminated. Examples of these accounts are summarized in the table below;

<table>
<thead>
<tr>
<th>ACCOUNT CODE</th>
<th>ACCOUNT NAME</th>
<th>BALANCE (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>001.239010.1</td>
<td>INV TERM CR REF FUND LOCAL CUR</td>
<td>(703,279,954)</td>
</tr>
<tr>
<td>001.239018.1</td>
<td>FOREIGN EXCH.EQUALISATION FUND</td>
<td>88,300,625</td>
</tr>
<tr>
<td>001.239019.1</td>
<td>COMM.BANKING ADVISORS’FUND</td>
<td>171,053,238</td>
</tr>
<tr>
<td>001.240002.1</td>
<td>IDA/IFAD GOU LOAN CSDP CAPITAL</td>
<td>(8,006,782,727)</td>
</tr>
<tr>
<td>001.240005.1</td>
<td>IDA/IFAD GOU LOAN ITCRF CAPITAL</td>
<td>(4,031,076,149)</td>
</tr>
<tr>
<td>001.240006.1</td>
<td>USAID GOU GRANT RPE CAPITAL</td>
<td>(3,376,683,811)</td>
</tr>
<tr>
<td>001.240021.1</td>
<td>DISTRESSED FLOWER CAPITAL A/C</td>
<td>(944,897,125)</td>
</tr>
<tr>
<td>001.241002.1</td>
<td>CFF RESERVE</td>
<td>(504,599,880)</td>
</tr>
<tr>
<td>001.241003.1</td>
<td>CSDP RESERVE</td>
<td>7,981,646,543</td>
</tr>
<tr>
<td>001.241006.1</td>
<td>ITCRF RESERVE</td>
<td>1,844,023,750</td>
</tr>
</tbody>
</table>
I informed management of the risk of possible misuse these dormant accounts to perpetuate unauthorized transactions. Management has communicated to MoFPED to have these accounts closed in accordance with the MoU. I await for this action.

### 83.13 Delayed Implementation and completion of projects

A review of the bank’s capital budget 2012/2013, various bank records and discussions with some senior members of management revealed that the Bank had planned a number of projects that were supposed to be undertaken and/or completed within the financial year ended 30 June 2013. I noted delayed implementation and completion of a number of planned projects as indicated in the table below;

<table>
<thead>
<tr>
<th>Project</th>
<th>Date Approved</th>
<th>Budget amount</th>
<th>Actual Spent</th>
<th>Status as at 30 June</th>
</tr>
</thead>
<tbody>
<tr>
<td>DMFAS Upgrade</td>
<td></td>
<td>243,439,920</td>
<td>-</td>
<td>Project completed but, no reason given for the budgeted amount as it was not spent.</td>
</tr>
<tr>
<td>Real Time Cross Settlement Project</td>
<td></td>
<td>1,200,600,000</td>
<td>-</td>
<td>Project cancelled, not implemented</td>
</tr>
<tr>
<td>BOU Banking System</td>
<td></td>
<td>557,887,500</td>
<td>-</td>
<td>Project carried forward to FY 2013/14</td>
</tr>
<tr>
<td>Vaults Management System</td>
<td>Jan-08</td>
<td>1,717,932,500</td>
<td>-</td>
<td>Contract terminated. Procurement to be initiated by Project Steering Committee Chairman (EDO)</td>
</tr>
<tr>
<td>CSD Upgrade</td>
<td>Dec-09</td>
<td>1,305,000,000</td>
<td>647,374,639</td>
<td>Scheduled to go live on 9th September 2013</td>
</tr>
<tr>
<td>E African Cross Border Payment System</td>
<td>Jul-07</td>
<td>522,000,000</td>
<td>276,467,710</td>
<td>Preparations for cross border verification followed by preparations for go live.</td>
</tr>
</tbody>
</table>

All the above relate to IT, which is critical for the Bank’s day to day activities. Failure to commence or complete projects may affect the achievement of the various set targets and this may have a significant impact on the productivity of the entire Bank.

Management explained that DMFAS Upgrade was completed, and apart from a training component of UGX43.5m/=, any unutilized funds will be frozen.

As regards to RTGS Upgrade, it was explained that the project commenced and progressed to the bid evaluation stage, but was cancelled because of issues related to
procurement procedures. A new project is being formulated.

For the case of Vault Management System, the project could not commence until the contract with the previous vendor had been properly terminated. Project has now commenced.

It was further explained that management and the Board review the IT Projects every quarter, and approve new projects after receiving assurances that there are adequate resources to undertake them. In some cases however, project delays are caused by circumstances beyond the Bank’s control.

I advised management to always review the overall resource utilization and ensure that there are adequate resources to undertake the planned projects. Any operational obstacles should be identified and managed on a timely manner to ensure that the Bank’s activities are conducted with minimum interference in order to achieve the bank’s targets.

83.14 Administrator activities are not regularly reviewed

IFS, BBS and CDS have administrator level user accounts both at the application and database level. It was noted that in rare circumstances e.g. System failure, backend intervention may be required to rectify arising issues.

I noted that for these applications, administrator activities on the respective underlying databases are not reviewed by management to ensure that there are no unauthorized back-end transactions or operations completed by administrators. In addition, audit triggers have not been enabled to track administrator activities on the respective databases.

It was also noted that procedures to review all users’ activities including administrators have been implemented at application level for BBS and IFS. However the business owner is not involved in the review for the case of IFS.

Also noted was that there were no reviews performed for CDS. The holders of administrator level accounts may execute unauthorized activities in the system without detection if their activities either from the application or database level are not monitored.

Management explained that the BOU plans to implement a tool to monitor the activities
of database administrators. The implementation of this tool would dependent on the availability of resources.

It was further explained that the review of user activities on BOU systems is being implemented using a phased approach. Phase 1 of the review of user activities included BBS, SWIFT and RTGS, and the next phase will cover IFS and CSD.

I advised that BoU management implements procedures to ensure that administrator activities from both the application end and database are reviewed on a regular basis; to determine whether any unauthorized activities have been completed using admin level accounts. I await the outcome of the implantation.

83.15 Inadequate incident management procedures

Bank of Uganda IT department has established and documented incident management procedures. A review of the incident management environment noted the following:

- Service level agreements (SLA) have not been established between IT department and respective business owners for IFS and CDS to define minimum acceptable levels of service and response to issues;
- The existing BBS SLA was last reviewed on 16 August 2011. Review and signing for the 2012-2013 year had not been done.

An inspection of all incidents that were logged during the 2012/2013 financial year revealed that a total of 589 out 4,485 incidents were still categorised as “Open”. The earliest of these incidents was logged on 2 July 2012 and latest on 31 May 2013 which means that some calls have remained open for more than three months. Below is a breakdown of these incidents:

<table>
<thead>
<tr>
<th>Application</th>
<th>Priority 1 (CRITICAL)</th>
<th>Priority 2 (HIGH)</th>
<th>Priority 3 (AVERAGE)</th>
<th>Priority 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBS</td>
<td>-</td>
<td>3</td>
<td>13</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>CDS</td>
<td>-</td>
<td>7</td>
<td>59</td>
<td>-</td>
<td>66</td>
</tr>
</tbody>
</table>
There is a risk that management may not be able to benchmark resolution rates of IT related problems if there is no documented SLA on this, implying that the work done by IT may not be quantifiable.

In addition, failure to track problems from discovery to resolution may lead to unresolved problems that may be aggravated due to this non-resolution. This may result in system downtime and need to implement manual processes are invoked to process financial activities affecting accuracy, integrity and inefficiency of the data.

Management explained that a decision was taken to implement SLAs for the critical systems initially, and currently 4 SLAs (BBS, RTGS, SWIFT, ECHO PLUS) have been implemented. SLAs for Email, CSD and IFS are scheduled for FY 2013/2014, while CSD SLA shall be completed by the end of October 2013 and IFS SLA in December 2013. The BBS SLA was reviewed and signed off in July 2013 and that the IT department conducted a cleanup exercise that reduced the number of open incidents to 79: 5 on BBS, 10 on CDS and 64 on IFS.

I advised that BoU develops a Service Level Agreement for all IT service lines between business and IT staff. The SLA needs to include among other components classification of incidents and incident resolution time lines. It is also advised that management enforces proper incident management procedures to follow up on all raised incident calls to ensure that they are logged, assigned to a resolver, resolved and closed. The metrics obtained from this process can be used to gauge the performance of IT services to business and performance of IT staff.

### 84.0 UGANDA DEVELOPMENT BANK

#### 84.1 Adverse Non Performing Loans Ratio

Whereas management has significantly transformed internal controls over loan
monitoring and administration, as at 31 December 2013, the bank had a non-performing loans ratio (NPL) of 36% (2012: 59%) compared to the average within the general commercial banking sector in Uganda of 2.45% (as at 30 September 2013).

Some of the regional development banks have NPL in the region of 10%. Going by these ratios, it would appear that the Bank’s NPL is still on a higher side. In addition, loans worth UUGX 16,176 million were written off during the year.

There is a risk that loans may not be recovered if Non-performing loans are not sufficiently monitored.

Management explained that most of the reported NPLs are historical accounts that were appraised before the restructuring process of the bank. During 2013 the bank re-engineered its credit appraisal processes, reviewed its credit policy and undertook training of its credit staff in order to ensure that the new deals are better structured and strengthen its loans monitoring.

I await the outcome of management’s efforts to improve the credit management policy.

84.2 Special Accounts requiring close monitoring

A review of management impairment analysis as at 31 December 2013 revealed that there were specific accounts which, in my opinion need to be closely monitored as they could potentially result into a loss in the foreseeable future. These relate to projects under implementation/recently restructured projects. Details are shown below:

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Loan Amount (UUGX) ’000 (31 December 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50264C</td>
<td>1,799,085</td>
</tr>
<tr>
<td>050356B</td>
<td>1,644,342</td>
</tr>
<tr>
<td>050344B</td>
<td>663,375</td>
</tr>
<tr>
<td>052058</td>
<td>1,517,900</td>
</tr>
<tr>
<td>53015</td>
<td>4,224,685</td>
</tr>
<tr>
<td>50410</td>
<td>513,168</td>
</tr>
<tr>
<td>53010</td>
<td>3,421,214</td>
</tr>
<tr>
<td>53026</td>
<td>574,522</td>
</tr>
<tr>
<td>Total</td>
<td>14,358,290</td>
</tr>
</tbody>
</table>
If these accounts are not closely monitored and managed, there is a possibility that they could result into a loss in the near future.

Management explained that it had changed its portfolio classification criteria adopting the more stringent criteria of Bank of Uganda to enable the bank identify and address any impairment at the earliest. Management further stated that the bank carries out impairment test on a quarterly basis to identify any impaired loans.

I await the outcome of management’s effort to monitor the performance of special accounts.

### 84.3 Non adherence to credit policies and procedures

A review of the bank credit policies and procedures revealed the following:

- Best practice requires security cover of at least 1.2 times for land and buildings pledged as security for loans however section 4.9.1 of the Bank’s Credit Risk Management Policy requires collateral cover of only 1.0 times for land and Buildings pledged as security for loans advanced by the Bank.
- Best practice also requires that loans and advances approved for construction are disbursed directly to and against invoices from the customer’s contractor rather than as a lump sum to the customer to avoid diverting of funds. I noted that the Bank had not adopted this practice and as such is prone to the possibility of funds being diverted.
- A review of customer loan files revealed instances where latest copies of financial statements and valid insurance policies for collateral were not on file. Examples include:

<table>
<thead>
<tr>
<th>Customer Name</th>
<th>Total owing from all customer facilities (UUGX ‘000)</th>
<th>Items not on file</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basere Investments Ltd</td>
<td>1,083,357</td>
<td>Financial statements, valid insurance policies for collateral</td>
</tr>
<tr>
<td>Budadiri Arabica Coffee Factory Ltd</td>
<td>3,758,233</td>
<td>Financial statements, valid insurance policies for collateral</td>
</tr>
<tr>
<td>Cwezi Properties Ltd</td>
<td>255,522</td>
<td>Financial statements, valid insurance policies for collateral</td>
</tr>
</tbody>
</table>
Farm 2 Market Ltd | 1,067,660 | valid insurance policies for collateral
Jinja Central School Ltd | 973,219 | Financial statements, valid insurance policies for collateral
Total | 12,231,924 |

- IAS 39 Financial instruments: Recognition and Measurement requires that financial institutions should consider all outstanding facilities to a single borrower together for impairment testing once any single facility extended to that borrower becomes non-performing. We noted that the Bank’s Credit Risk Management Policy does not contain guidance on such a scenario and as such, the loan book as at 31 December 2013 contains some customers who have more than one facility with the bank with different classification status for each facility. Examples

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Line of Credit</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>53016</td>
<td>Customer 1</td>
<td>Normal</td>
</tr>
<tr>
<td>53010</td>
<td>Customer 1</td>
<td>Watch</td>
</tr>
<tr>
<td>53001</td>
<td>Customer 2</td>
<td>Loss Write off</td>
</tr>
<tr>
<td>050276A</td>
<td>Customer 2</td>
<td>Loss Write off</td>
</tr>
<tr>
<td>50370</td>
<td>Customer 2</td>
<td>Doubtful</td>
</tr>
<tr>
<td>52054</td>
<td>Customer 3</td>
<td>Watch</td>
</tr>
<tr>
<td>52054</td>
<td>Customer 3</td>
<td>Normal</td>
</tr>
</tbody>
</table>

Inadequate loan monitoring may lead to default hence financial loss for the Bank.

Impairment losses in the financial statements may be misstated.

Management explained that the bank was working tirelessly to have all client insurances policies renewed before the end of first quarter 2014.

I advised management to ensure that all facilities to a single borrower are analysed together whenever one of them demonstrates signs of impairment. In addition, the credit
policy should be updated to accommodate this provision.

Management should also ensure that the internal controls and in particular the requirements of the credit policy are adhered to at all times.

### 84.4 Long Outstanding Receivables and unreconciled Receivables Ledger

A review of other assets indicated long outstanding items in other debtors and the suspense account. Examples are indicated below:

<table>
<thead>
<tr>
<th>Account code</th>
<th>Account</th>
<th>Amount (UUGX '000)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>11311</td>
<td>Other Debtors</td>
<td>243,747</td>
<td>Balance outstanding for over 365 days</td>
</tr>
<tr>
<td>11342</td>
<td>Cash advance</td>
<td>4,761</td>
<td>Amount outstanding for over 2 years</td>
</tr>
<tr>
<td>21103</td>
<td>Accruals</td>
<td>3,501</td>
<td>Opening balance outstanding for over 365 days</td>
</tr>
</tbody>
</table>

I also noted a balance of UUGX 134 million not reconciled to the general ledger.

Furthermore, there was an un reconciled variance of USD 6,900 between the general ledger and the “cash manager” interface to the payments module. The details are illustrated below:

<table>
<thead>
<tr>
<th>Account code</th>
<th>Account Name</th>
<th>Amount per GL (USD)</th>
<th>Amount per Cash Manager (USD)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>11143</td>
<td>DFCU Bank - Current a/c(USD)</td>
<td>290,512</td>
<td>297,412</td>
<td>(6,900)</td>
</tr>
</tbody>
</table>

Long outstanding un reconciled balances may be used to perpetrate fraud and errors and misstatements in the financial statements may not be easily detected for corrective action.
Management explained that outstanding balances are isolated historical balances that are currently under review for resolution. However during 2013 management put in place procedures and set aging benchmarks to review the accounts.

I advised management to perform a thorough reconciliation of the affected balances, investigate any unsupported items and accordingly process correcting entries.

84.5 Use Of un-Updated Valuation Report in Loan Underwriting Process

A review of the loan underwriting process revealed that a loan to Twin Brothers Limited was offered 2013 on the basis of collateral values from a valuation report dating back to 2009. This is illustrated below:

<table>
<thead>
<tr>
<th>Loan Number</th>
<th>Disbursement Date</th>
<th>Amount (UUGX'000)</th>
<th>Customer Name</th>
<th>Valuation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>52062</td>
<td>20-December 13</td>
<td>500,000</td>
<td>Twin Brothers Ltd</td>
<td>7 December 2009</td>
</tr>
</tbody>
</table>

A credit facility might be issued with security that is nonexistent or without adequate security cover hence exposing the Bank to financial loss.

Management explained that the loan to twin brothers Ltd Loan number 52062 was a trade finance loan offered in 2011 on the basis of stock collateral under collateral management. This loan was rescheduled due to adverse market condition that affected the business.

Twin Brothers however had another loan which was offered in 2010 when the valuation of 2009 was valid and the loan has since been paid off. The company then requested the bank to convert the balance under working capital loan to term loan to be secured by the security which was otherwise to be discharged.

The bank is aware that the security is due for revaluation. The customer has been informed and is in the process of valuing the securities. The securities was physically visited and verified in February 2014 and we confirmed that the security is much more developed than it was in 2009.

I advised management to ensure that updated valuation reports are used during appraisal of all credit facilities and approval of a loan should only be done after getting
assurance that the loan is adequately secured.

84.6 Collateralization of Loans

I noted an instance where collateral for a loan advanced by the bank was comprised on more than three plots yet the bank offer letter stipulated only one of the plots as collateral. Details are shown below:

<table>
<thead>
<tr>
<th>Loan Number</th>
<th>Customer Name</th>
<th>Amount Approved</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>53026</td>
<td>Ken Paper East Africa</td>
<td>USD 850,000</td>
<td>The collateralized building is located on plots 598, 743 and 861, Kyadondo; Block 254 Nabutiti and Kansanga. However, only plot 598 is collateralized per the offer letter signed with the client.</td>
</tr>
<tr>
<td>05305A</td>
<td>Western Meridian Hotel Ltd</td>
<td>UGX 1,112,855</td>
<td>The collateralized building is located on plots 36A and 36B LRV 3404, Folio 3, Bushenyi District. However, only plot 36A was collateralized.</td>
</tr>
</tbody>
</table>

The bank may not be able to realize the security in case of default.

Management explained that all the securities of Ken paper/Kengroup comprised of plots 598, 743 and 861, Kyadondo; Block 254 Nabutiti and Kansanga are mortgaged to the Bank under Ken Group of Companies Ltd and a sister Company Ken paper (E.Africa) Ltd.

Management further explained that plot 598 is specifically collateralized in regards to the construction loan on the same complex that houses Ken Paper and ken Group. This loan was offered as a construction loan with each disbursement made after valuation of the work done. It is therefore important to note that on the overall, Ken Group of companies are well secured within the bank with a floating debenture on all current and future assets of the company. I advised management to ensure that all loans are adequately secured with encumbrances on all relevant collateral adequately registered.

84.7 Timely Updating of Interest Rates in the Manual Records
During our audit, I noted that the Board had approved revised interest rates for specific customers. However no updates had been made to some of the customers as shown below:

<table>
<thead>
<tr>
<th>Client</th>
<th>Approved Rate %</th>
<th>Rate per spreadsheet %</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMMAUS FOUNDATION LTD</td>
<td>14.5</td>
<td>15.0</td>
</tr>
<tr>
<td>CEPHAS INN LTD</td>
<td>15.0</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Untimely updating of interest rates may lead to revenue leakage, which could potentially misstate the financial statements.

Management explained that interest rates were adjusted accordingly.

I wait the outcome of management’s efforts.

84.8 Errors in computation of exchange differences

I noted an instance where the computation of an exchange loss was inaccurately computed. Details are shown below:

<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Amount per GL (UUGX '000)</th>
<th>Amount computed UUGX '000</th>
<th>Variance UUGX '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV.9476</td>
<td>Adjusting GL Balances- TRADE USD</td>
<td>241,912</td>
<td>208,976</td>
<td>33,116</td>
</tr>
</tbody>
</table>

Whereas this amount is not material for financial reporting purposes, errors in financial information could be an indicator of failure in the review and monitoring controls.

Foreign exchange gains/ losses in the financial statements may be misstated.

Management explained that the current operating system Ms Dynamics does not have capacity to revalue all foreign currency denominated balances with exception of the bank balances and these have to be done outside the system. The new operating system that
the bank is rolling out will be able to revalue all foreign denominated balances.

I advised management to ensure that exchange gains and losses are accurately computed and reviewed prior to recognition in the general ledger.

84.9 **Completeness of the Fixed Assets Register**

Section 12.4.2 of the finance manual requires the bank to maintain a fixed asset register, perform an annual fixed assets verification exercise and also update the register whenever an asset is bought or disposed of. Our review indicated some assets not in the fixed assets register that were disposed of during the period ended 31 December 2013.

Fixed asset register and the financial statements may be misstated.

I advised management to ensure that a physical asset verification exercise is performed. In addition, all assets purchased should be capitalized and updated in the asset register immediately.

Management explained that issues have all been resolved except for the unreconciled variance of USD 6,900 on DFCU Bank current a/c arising out of a system error between the general ledger and the “cash manager” interface module in SL Dynamics. The problem has persisted because of lack of SL Dynamics system support, however the Bank has procured a new software, Rubicon, supported by a local supplier Neptune Financial Software Ltd and similar issues are expected to be resolved immediately in case they occur.

85.0 **THE EUROPEAN INVESTMENT BANK/REPUBLIC OF UGANDA APEX PRIVATE ENTERPRISE LOAN SCHEME (BANK OF UGANDA)**

85.1 **Non Compliance to the Finance Contract between the GoU and European Investment Bank and Participation Letter by a bank**

In June 1995 a private bank signed a Participation letter with Bank of Uganda (BoU) and European Investment Bank (EIB). This letter defined the terms of on-lending from AFIs to Final Beneficiaries. Section 11 (b) of the Participation letter states; The AFI shall be responsible for project selection, appraisal and preparation of all necessary documentation. Each loan request shall be presented to the BOU which will be responsible for ensuring that each request conforms with the scheme’s objectives, forward to EIB and request the loan disbursement. The EIB will be responsible for
approving each request.

The process of application, approval and extension of a number of loans was reviewed and the following observed;

A school applied and was offered three (3) APEX loans through the private bank.

**Loan 1**
The school applied for an APEX loan amounting to UGX.350,000,000 through a private bank. This loan was approved by the private bank and a Loan Facility Letter of Offer was signed on 2\textsuperscript{nd} October 2002. Subsequently an Investment Loan Agreement was signed on 17\textsuperscript{th} October 2002. The loan was fully disbursed by the bank on 9\textsuperscript{th} May 2003. The following were noted;

- The disbursement was made before evaluation by EIB and approval by BoU. BoU approved the loan application 10 months (12/11/2003) after the first disbursement (13/01/2003).
- Whereas BoU released a sum of UGX.355,481,495 (net of 0.5% Service Fee to PMU) to the private bank, UGX.350,000,000 was released to the school leaving unexplained balance of UGX.5,481,495.
- The letter of allocation required the private bank to furnish Bank of Uganda with quarterly progress reports on implementation of the project, reports of inspection of final beneficiary’s accounts, records and project site as well as project completion report. I was not provided with any quarterly reports by the private bank on the school projects.
- The private bank extended the loans in two installments and charged an interest rate that differed from the EIB rate as indicated in the table below.

<table>
<thead>
<tr>
<th>Date of disbursement by the DFCU</th>
<th>Loan disbursed (UGX)</th>
<th>Interest charged DFCU</th>
<th>Rate by DFCU</th>
<th>fixed margin charged by DFCU above EIB rate</th>
<th>EIB Interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>13/01/2003</td>
<td>100,000,000</td>
<td>19%</td>
<td>6%</td>
<td>10.13%</td>
<td></td>
</tr>
<tr>
<td>07/05/2003</td>
<td>250,000,000</td>
<td>19%</td>
<td>6%</td>
<td>10.13%</td>
<td></td>
</tr>
</tbody>
</table>

Non-compliance with the investment loan agreement resulted into extra interest payments of approximately UGX.45,125,000 by the final beneficiary.
In the participation letter signed between BoU and a private bank, the bank indicated that a fixed interest rate of 6% would be charged above BoU rate to the final beneficiary however, in August 2008, without notifying and seeking consent of BoU/EIB, the bank re-structured the loan attracting a different interest rate of 14.6%.

**Loan II**

The school applied for an additional funding on 2nd July 2003 under APEX loan through the private bank. This loan was approved by the bank and a Loan Facility Letter of Offer was signed on 22nd July 2004. Subsequently an Investment Loan Agreement was signed on 23rd July 2004. The loan was fully disbursed by the bank on 28th July 2004. The following were noted;

- The disbursement was made before approval by BoU. BoU approved the loan application 4 months (27/11/2004) after the disbursement (28/07/2004) by DFCU.
- Whereas BoU released a sum of UGX.212,605,844 (net of 0.5% Service Fee to PMU) to the bank, UGX.200,000,000 was released to the school leaving unexplained balance of UGX.12,605,844.
- The letter of allocation required the bank to furnish Bank of Uganda with quarterly progress reports on implementation of the project, reports of inspection of final beneficiary’s accounts, records and project site as well as project completion report. I was not provided with any quarterly reports by the bank on the school projects.
- A review of the application letter did not reveal any communication that bridge finances had been provided by the bank to the school as final beneficiary. In addition, the attached proposal form for Apex loan completed by AFI did not indicate any information on bridged finances as well.
- The bank extended the loan in one installment and charged an interest rate that differed from the EIB rate as indicated in the table below.

<table>
<thead>
<tr>
<th>Date of disbursement by the bank</th>
<th>Loan disbursed (UGX)</th>
<th>Interest rate charged by the bank</th>
<th>Fixed margin rate charged by the bank above EIB rate</th>
<th>EIB Interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>28/07/2004</td>
<td>200,000,000</td>
<td>19%</td>
<td>6%</td>
<td>10.13%</td>
</tr>
</tbody>
</table>

Non-compliance with the investment loan agreement resulted into extra interest payments of approximately UGX.31,666,667 by the final beneficiary.
• The participation letter signed between BoU and the bank, The bank indicated that a fixed interest rate of 6% would be charged above BoU rate to the final beneficiary however, in August 2008, without notifying and seeking consent of BoU/EIB, the bank re-structured the loan attracting a different interest rate of 14.6%.

**Loan III**

The school again applied for a loan amounting to UGX.400,000,000 on 14th November 2005 through the private bank. On 17th May 2006, a Loan Facility Letter of Offer was signed between the bank and the school detailing APEX Loan Terms. Subsequently an Investment Loan Agreement was signed on 24th May 2006. The loan was disbursed by the bank in 3 installments as indicated in the table below.

<table>
<thead>
<tr>
<th>Installment</th>
<th>Date of disbursement by the bank</th>
<th>Amount disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>30/05/2006</td>
<td>100,000,000</td>
</tr>
<tr>
<td>2nd</td>
<td>17/08/2006</td>
<td>100,000,000</td>
</tr>
<tr>
<td>3rd</td>
<td>28/11/2006</td>
<td>200,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>400,000,000</strong></td>
</tr>
</tbody>
</table>

The following were noted;

• The disbursement was made before approval by BoU. BoU approved the loan application 6 months (21/11/2006) after the first disbursement (30/05/2006) by the bank. It was only in this loan application that the final disbursement of UGX.200,000,000 was made after approval of application by BoU.

• Whereas sum of UGX.200,000,000 (net of 0.5% Service Fee to PMU) was supposed to be disbursed to the school, only UGX.194,136,987 was disbursed. it was explained that the difference of UGX.5,863,013 was accrued interest on the earlier disbursements. This action was irregular since it was effected on unapproved loan applications.

• The letter of allocation required the private bank to furnish Bank of Uganda with quarterly progress reports on implementation of the project, reports of inspection of final beneficiary’s accounts, records and project site as well as project completion report. I was not provided with any quarterly reports by the bank on the school projects.

• A review of the application letter did not reveal any communication that bridge
finances had been provided by the bank to the school as final beneficiary. In addition, the attached proposal form for Apex loan completed by AFI did not indicate any information on bridged finances as well.

- The private bank extended the loan in one installment and charged an interest rate that differed from the EIB rate as indicated in the table below.

<table>
<thead>
<tr>
<th>Installment</th>
<th>Date of disbursement by the bank</th>
<th>Loan disbursed (UGX)</th>
<th>Interest rate charged by the bank</th>
<th>Fixed margin rate charged by the bank above EIB rate</th>
<th>EIB Interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>30/05/2006</td>
<td>100,000,000</td>
<td>20%</td>
<td>6%</td>
<td>10.13%</td>
</tr>
<tr>
<td>2nd</td>
<td>17/08/2006</td>
<td>100,000,000</td>
<td>20%</td>
<td>6%</td>
<td>10.13%</td>
</tr>
<tr>
<td>3rd</td>
<td>28/11/2006</td>
<td>200,000,000</td>
<td>19%</td>
<td>6%</td>
<td>10.13%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>400,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Non-compliance with the investment loan agreement resulted into extra interest payments of approximately UGX.26,666,667 by the final beneficiary.

- The participation letter signed between BoU and the private bank, the bank indicated that a fixed interest rate of 6% would be charged above BoU rate to the final beneficiary however, in September 2010, without notifying and seeking consent of BoU/EIB, The bank re-structured the entire loan attracting a different interest rate of 15.6% yet the first loan was acquired at a fixed rate of 10.13% and the second at 14.6%.

The table below shows funds lost by the final beneficiary as a result of the inconsistencies in the Scheme’s operations by the bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (UGX)</th>
<th>Bridge rate</th>
<th>Annual(UGX)</th>
<th>Per month (UGX)</th>
<th>Cost Incurred (UGX)</th>
<th>Period for Bridge finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13-Jan-03</td>
<td>100,000,000</td>
<td>19%</td>
<td>19,000,000</td>
<td>1,583,333</td>
<td>17,416,667</td>
<td>11 months</td>
</tr>
<tr>
<td>7-May-03</td>
<td>250,000,000</td>
<td>19%</td>
<td>47,500,000</td>
<td>3,958,333</td>
<td>27,708,333</td>
<td>7 months</td>
</tr>
<tr>
<td>Loan 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-Jul-04</td>
<td>200,000,000</td>
<td>19%</td>
<td>38,000,000</td>
<td>3,166,667</td>
<td>31,666,667</td>
<td>9 months</td>
</tr>
<tr>
<td>Loan 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30-May-06</td>
<td>100,000,000</td>
<td>20%</td>
<td>20,000,000</td>
<td>1,666,667</td>
<td>11,666,667</td>
<td>7 Months</td>
</tr>
<tr>
<td>17-Aug-06</td>
<td>100,000,000</td>
<td>20%</td>
<td>20,000,000</td>
<td>1,666,667</td>
<td>8,333,333</td>
<td>5 Months</td>
</tr>
</tbody>
</table>
Although management of the bank explained that the additional interest cost to the school resulting from the bridge financing arrangement was UGX.35,660,479 and that this arrangement was optional, the beneficiaries had liberty to wait until funds were availed by EIB.

I did not find this explanation satisfactory. By the bank introducing a Bridge finance to a final beneficiary at an interest rate of either 19% or 20% pa when BoU and EIB had not yet approved an application for the Loan, the beneficiary lost UGX.103,458,333. This action negatively impacted on Scheme’s objectives.

I advised management of BoU that given the outcome of the audit, a special investigation be commissioned into the management of the scheme by the bank and other AFIs to ascertain whether the intended objectives of the scheme were realised and whether there was value for money during the operation and management of the scheme.

85.2 Appointment of a debt collector/Auctioneer/Receiver

Article 7(Information and Visits) section 7.01 (e) states that the Borrower shall ensure that BOU promptly gives notice of liquidation of, any proposal to liquidate a final beneficiary which has received a sub-loan or equity participation. The following were noted;

- On 10th May, 2012, the bank appointed an auctioneer to liquidate the school’s property on plot 1-13 Topa Avenue, Tororo Municipality without adhering to the above provision. The school had an outstanding loan amount of UGX.520,500,896 as at 10th May 2012.

- On 31st October, 2008 the Ag. Solicitor General Government of Uganda (the borrower under financing Agreement) informed the Managing Director of the bank of Government’s commitment to repay a company’s final obligation however, on 20th February, 2009 the bank went ahead and appointed an auctioneer as a receiver and manager of assets of a company without any notice to BOU/EIB as the source of the funding for the final beneficiary. The company had an outstanding loan
amount of UGX.171,747,785 as at 16th January 2009.

Management of the bank acted contrary to the provisions in the agreement between GoU and EIB and hence could have negatively impacted on the Scheme’s operations.

Management of BoU explained that they did not come across any information indicating that the projects in question were under liquidation.

I advised BoU to ensure that AFIs comply with the provisions of the participation letter before any appointment to liquidate beneficiaries is done.

85.3 Significant differences between amounts allocated and amounts actually disbursed to AFIs

Paragraph I of the letter of allocation from BOU to the AFIs states that ‘The shilling liability will be determined by rate of exchange applicable at the date of disbursement,’ hence implying that the amount credited to the AFI may not necessarily be that stated in the allocation letter.

During the audit, material variations were noted between the amounts allocated and amounts credited to the AFI for various final beneficiaries as listed below:

The table below highlights the variances noted

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Euro Amount</th>
<th>UGX equivalent at allocation</th>
<th>UGX equivalent at disbursement</th>
<th>Variance in UGX</th>
<th>Exchange Rate at allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>1,806,500</td>
<td>4,062,692,045</td>
<td>3,876,987,277</td>
<td>185,704,768</td>
<td>2,249</td>
</tr>
<tr>
<td>H</td>
<td>677,500</td>
<td>1,523,650,075</td>
<td>1,454,004,362</td>
<td>69,645,713</td>
<td>2,249</td>
</tr>
<tr>
<td>Bank B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>1,254,000</td>
<td>2,984,432,220</td>
<td>2,903,799,769</td>
<td>80,632,451</td>
<td>2,380</td>
</tr>
<tr>
<td>J</td>
<td>228,000</td>
<td>504,331,440</td>
<td>985,868,106</td>
<td>(481,536,666)</td>
<td>2,212</td>
</tr>
<tr>
<td>K</td>
<td>547,500</td>
<td>1,289,515,800</td>
<td>1,250,841,933</td>
<td>38,673,867</td>
<td>2,355</td>
</tr>
<tr>
<td>Bank C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L</td>
<td>1,582,000</td>
<td>3,700,329,640</td>
<td>3,614,304,910</td>
<td>86,024,730</td>
<td>2,339</td>
</tr>
<tr>
<td>APEXIII</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M</td>
<td>893,200</td>
<td>2,066,731,650</td>
<td>1,981,114,027</td>
<td>85,617,623</td>
<td>2,314</td>
</tr>
</tbody>
</table>
Without clear criteria on how variations in amounts allocated, disbursed and finally given to final beneficiary, there is a risk of multiple funding whose cost of capital is not included in the evaluation process and private use of excess amount disbursed to AFIs.

Management explained funds disbursed in foreign currency were affected by movements in exchange rates. Although the foreign currency amount allocated remained the same throughout the contract, the disbursement to the AFI’s was made in UGX (since the AFIs had agreed UGX amounts) giving rise to exchange differences. The exchange rate differences were accordingly met by the AFI’s.

Management was advised that in future, amount to final beneficiary should be signed off after BOU had disbursed to the AFI to cater for any variations arising out of exchange variations. In addition, a provision in the funding agreement should be included indicating the party that bears the exchange gains or losses.

85.4 **Non adherence to the letter of allocation requirements**

In accordance with clause 6 of the EIB allocation letter, there is need for BOU to confirm in due time that they have done the following;

- That the Sub-loan agreement between the AFI and final beneficiary is in force
- That the Sub-loan agreement contain clauses substantially similar to what was indicated by BOU when submitting the project for approval and allocation by EIB
- That the characteristics of the project have not been altered in any significant way compared to their definition at the time of submitting the project to EIB
- That the money has been advanced to the beneficiary by the AFI
- The interest rate charged by BOU to the AFI
- That the AFI has issued a promissory note in favour of BOU equivalent to the amount advanced to it by BOU.

The findings are noted in the table below;
CONFIRMATIONS

<table>
<thead>
<tr>
<th>Subloan agreement between the AFI and final beneficiary is in force</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>On file</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subloan contains clauses substantially similar to what was indicated by BOU when submitting the project for approval and allocation by EIB</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>On file</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Characteristics of the project have not been altered in any significant way compared to their definition at the time of submitting the project to EIB</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not on file Money has been advanced to the beneficiary by the AFI</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>On file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest rate charged by BOU to the AFI</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AFI has issued a promissory note in favour of BOU equivalent to the amount advanced to it by BOU</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
<td>Not on file</td>
</tr>
</tbody>
</table>

|-------|------------|------------|------------|------------|------------|------------|

<table>
<thead>
<tr>
<th>Status (Cleared/Outstanding)</th>
<th>Outstanding</th>
<th>outstanding</th>
<th>cleared</th>
<th>Outstanding</th>
<th>cleared</th>
<th>cleared</th>
</tr>
</thead>
</table>

Inadequate follow up on AFIs after approval of funds by EIB may have given AFIs chance to offer loan letters as well as entering into agreements with final beneficiaries before approval by EIB with very different terms and conditions from Apex requirements leading to mismanagement of the programme. In addition, introduction of bridge finances could have been as a result of such weakness leading to high costs of funding (bridging interest costs) to final beneficiary hence possible failure to realize the intended objectives of the programme.

Management explained that according to Article 7 of the finance contract between EIB and the Government of Uganda represented by Bank of Uganda, the borrower ensured that BOU would annually provide the EIB with a report on the status of sub-loans, equity participations and final beneficiaries. This would also include a statement showing the use of the Apex funds pursuant to article 6.01. In addition, the Project Management Unit, Deloitte & Touche, ensured full compliance with the agreement.
I advised management to ensure that the borrower ensures compliance to funding terms and conditions without any exceptions.

86.0 **UGANDA INVESTMENT AUTHORITY (UIA)**

86.1 **Funds not accounted for**

86.1.1 **Un-accounted for fuel funds-UGX.191,579,500**

Fuel deposits to a fuel company for various activities worth UGX.191,579,500 was not adequately accounted for. The fuel requisitions, authorizations to the petrol stations, activity reports for which the fuel was spent and fuel consumption statements from the petrol stations were not availed for audit.

In the absence of the above supporting accountabilities, I was unable to confirm that the fuel was spent on the official entity vehicles and for the officially planned activities.

I urged the Accounting Officer to ensure that accountability is obtained from the staff who drew the fuel or consider recovery from the concerned staff.

86.1.2 **Un-accounted for workshop funds-UGX.91,887,782**

Payments for workshops worth UGX.91,887,782 advanced to staff members to facilitate official workshops remained un-accounted for. The payments lacked supporting documents like attendance lists, post training reports and schedules confirming payments of allowances to participants.

I urged the Accounting Officer to ensure that accountabilities are obtained or consider recovering funds from concerned officers.

86.1.3 **Un-acknowledged remittances to URA as WHT and PAYE**

UGX.312,440,627 paid to URA as WHT on procurements and PAYE did not have acknowledgements from the collecting body. In the absence of acknowledgement receipts, I was unable to confirm that the remittances reached the tax authority.

I advised management to make a follow up of the acknowledgements with URA.

86.2 **Staff establishment gaps**

The Authority’s approved staff structure indicates that of the 78 approved posts, only 51
(65%) were filled leaving 27 (35%) vacant. Details in the schedule below:

<table>
<thead>
<tr>
<th>Departments/ Divisions</th>
<th>Approved Posts</th>
<th>Filled Posts</th>
<th>% filled</th>
<th>Vacant Posts</th>
<th>% not filled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director ‘s office</td>
<td>13</td>
<td>10</td>
<td>77%</td>
<td>3</td>
<td>23%</td>
</tr>
<tr>
<td>Investment Promotion Division</td>
<td>14</td>
<td>6</td>
<td>43%</td>
<td>8</td>
<td>57%</td>
</tr>
<tr>
<td>Investment Facilitation &amp; Aftercare Division</td>
<td>10</td>
<td>4</td>
<td>40%</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Land Development Division/Kibp</td>
<td>18</td>
<td>12</td>
<td>67%</td>
<td>6</td>
<td>33%</td>
</tr>
<tr>
<td>Finance &amp; Administration Division</td>
<td>18</td>
<td>14</td>
<td>78%</td>
<td>4</td>
<td>22%</td>
</tr>
<tr>
<td>SME Division</td>
<td>5</td>
<td>5</td>
<td>100%</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>78</strong></td>
<td><strong>51</strong></td>
<td><strong>65%</strong></td>
<td><strong>27</strong></td>
<td><strong>35%</strong></td>
</tr>
</tbody>
</table>

The Accounting Officer explained that due to lack of sufficient funds, all the vacant positions could not be filled at ago. The positions of Investment Executive ICT; Administrative Assistant ICT and a Revenue Accountant were recently advertised and will be filled soon.

I advised management to liaise with the responsible authorities to have the most vital posts filled.

**86.3 Lack of Board of Directors**

It was noted that there was no Board in place at the time of writing this report. Lack of a Board of Directors creates governance gaps leading to pending strategic decisions and risk of inappropriate decisions.

The Accounting Officer explained that the relevant authorities had been informed of the urgency to have a Board in place.

I advised management to follow up the matter with the MoFPED to have the Board in place.

**86.4 Absence of Corporate Strategic Plan**

The strategic plan is an important tool in steering any organization towards its vision, mission and its overall mandate. Annual activities undertaken by any organization should be derived from the strategic plan. However, it was noted that the Authority lacks a
strategic plan.

The Accounting Officer explained that a draft strategic plan was developed in 2013 but its approval had been delayed due to absence of a Board of Directors.

I urged the Accounting Officer to ensure a strategic plan is approved as soon as the Board is in place.

86.5 **Mbarara Industrial Park rent arrears**

The Authority entered into various rental agreements with a number of tenants renting working spaces in Mbarara industrial park. The agreements provide for payment of specified monthly rentals payable quarterly in advance. It was noted that, the tenants breached the tenancy agreements by not paying the agreed monthly rent. The rent ledgers show that by the close of the financial year, the entity had not collected a sum of UGX.81,880,000 from these tenants.

The Accounting Officer explained that he had a closed door meeting with the tenants where it was resolved that tenants with outstanding arrears be given grace period of up to February 2014 to clear. The Authority has also been sending reminders and demand notes to these tenants.

I urged management to continue following up the defaulters and ensure that the rental agreement terms are fully adhered to.

86.6 **Inspection of Industrial Parks**

Inspections of industrial parks were conducted and the following were noted:

86.6.1 **Inspection of Mbarara Industrial Park- Unutilized work space**

Mbarara Industrial Park was acquired in 2009 at UGX.2,500,000,000 from Gatsby Club with a purpose of developing it into an ultra modern park for Small and Medium Enterprises. The park was divided into 43 workspaces of which 34 were rented out leaving a balance of 10 un-occupied. Out of the 34 rented out, only 12 were in active production/business.

The Accounting Officer explained that plans are underway to advertise all the available
work spaces in the park to interested bidders to ensure that the park is fully operational. In addition, UIA has also commissioned a master planning study that will ensure optimum utilization of available un-built space at the park.

The action by management is awaited.

86.6.2 Kampala Industrial and Business Park (KIBP), Namanve

The Kampala Industrial park came into being after degazettement of Namanve forest reserve in 1997 which was passed over to UIA for development into an industrial and business park. A land allocation list of January 2012 showed that 277 projects were offered land for development into industries and business centers of which only 19 companies, (6%) were active. Because of non-utilization of land, un-authorised business activities such as stone quarrying and brick making were evident within the industrial park. Refer to photographs below:

The Accounting Officer explained that due to inadequate financing of the KIBP by Government progress has been slow. The Authority is in the process of developing tarmac roads, water system, electricity and telephone services to ensure that different plots are accessed. The Authority is reviewing the land allocations with the view to redistributing the government land to investors who are ready to develop the park. As for the encroachers, Police has been engaged and border marks around the park have been installed.

I advised management to continue pursuing the funding for the provision of facilities in the industrial park.

86.6.3 Jinja Industrial and Business Park
UIA acquired land in Jinja measuring (182) acres in May, 2011 at a cost of UGX.1,492,000,000 for the purpose of developing it into an industrial and business park. It was established that the drawing of a Master Plan had been completed but an Environmental Impact Assessment had not been concluded. In a bid to develop the park, management had constructed uniports for security purposes. In addition, the opening of park boundaries and installation of boarder markers had been completed.

It was however noted that the land has remained unutilized and has since grown into a bush as shown in the photograph below.

The Accounting Officer explained that they are awaiting approval of the Environmental Impact Assessment from Jinja Municipality. With regard to the development of the part, 100 acres of land had been allocated to the Makerere College of Engineering to set up an assembly plant for Kiira Electric Vehicle project, 12 acres for pole treatment and the remaining land has been reserved for infrastructure and waste management.

I urged management to expedite the land demarcation process and put in place measures to attract more investors to develop the industrial parks.

86.7 Assets due for disposal

Three vehicles which were parked in good running condition at UIA offices in Namanve have remained idle for a period of over two years. It was noted that management grounded vehicles that were still sound longer than necessary. As a result, the vehicles were recommended for disposal. This could have affected the authority’s transport
I advised management to always ensure that proper mechanical assessments of motor vehicles are done prior to grounding for disposal.

86.8 Budget performance

86.8.1 Inconsistency in implementation of activities.

A review of the planned activities against the actual performance revealed that some of the activities were not carried out. These included the following:

<table>
<thead>
<tr>
<th>Planned activities to be carried out</th>
<th>Management responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well equipped business development advisory center set</td>
<td>UIA having waited for the Government to give guidance on the much needed One-Stop-Center, resolved to move ahead with re-furbishing its front office at TWED Plaza providing a well-equipped six room One Stop Center</td>
</tr>
<tr>
<td>The 3.7 km roads maintained in Luzira industrial park</td>
<td>The activity is under implementation and the roads are being maintained by Mugoya Plus Technical Services Ltd.</td>
</tr>
<tr>
<td>1.9 km road maintained in Bweyogerere Industrial estate</td>
<td>The activity will be undertaken in the next financial year 2014/201. A big portion of these roads were still defects liability maintenance.</td>
</tr>
</tbody>
</table>

It was also noted that the following outputs as disclosed in the Performance Report were not planned for but were carried out.

<table>
<thead>
<tr>
<th>Activities not planned for but carried out</th>
<th>Management responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of a 33kV power line from Kiwanga to Luzira Industrial</td>
<td>The section of power line from Kiwanga to Namanve but not Luzira was constructed from funding by UEDCL through the Energy Funds in the Ministry of Energy. The UIA was responsible for acquiring the way leaves from the power line. The section of the line from Namanve to Luzira is yet to be constructed. This was approved by the board and done to facilitate the operation of US $125 million facility at Roofings Ltd</td>
</tr>
<tr>
<td>Construction of a 33/11kV substation in Luzira Industrial Park</td>
<td>The substation is not yet constructed as it is still under design by UETCL and done by the same</td>
</tr>
<tr>
<td>Purchase of land in Kabarole and Masaka</td>
<td></td>
</tr>
<tr>
<td>Boundary opening and installation of Border Markers at KIBP</td>
<td>Done after ferocious attack on the park by the veterans</td>
</tr>
</tbody>
</table>
Extending of Power to Victoria Seeds
The plant construction completed in 2012 was not in operational due to lack of government promised electricity.

Extending of a 2.5 Km Road at KIBP
Done after cries from Victoria seeds factory as there was need to access the factory by suppliers and buyers.

Extension of First Ring Road in Luzira Industrial Park by 200 metres
Done to enable serious investor to access premises without raising dust for neighboring medicine manufacture (Quality Chemical Ltd)

Management was advised to make realistic budgets to cover all the planned activities.

87.0 PUBLIC PROCUREMENT AND DISPOSAL OF ASSETS – YEAR ENDED 30TH JUNE, 2013

87.1 Un-transferred balance to the UCF
Register of provider (ROP) account is an account where receipts from potential supplier pay registration fee to be able to be listed to the PPDA data base. It also collects proceeds from sale of PPDA materials.

The ROP account had an opening balance of UGX.92,431,846, a sum of UGX.303,621,106 was collected during the year and banked on this account making the revenue available of UGX.396,052,952. It was noted that the authority transferred only UGX.159,795,612 to the consolidated fund leaving a balance of UGX.80,415,051 un transferred.

I advised the Accounting Officer to ensure that the balance is transferred to the UCF.

87.2 Un implemented sale of vehicles
PPDA requested the Chief Mechanical Engineer (CME) for an evaluation of authority motor vehicles where 8 vehicles were recommended for disposal. However at the time of the report, only one vehicle had been disposed-off. This implies that the recommendations by the Government Chief Mechanical Engineer were not complied with. This exposes the Authority to a risk of incurring higher repair and maintenance costs for the old fleet.

The Accounting Officer explained that because of the current ban on purchase of motor vehicles by the Government together with limited Development budget, the entity could not dispose-off all the vehicles. However, a request had been made to the Prime Minister to approve the purchase two new vehicles after which the old ones will be disposed off.
I urged the Accounting Officer to pursue the request and ensure that the vehicles are disposed of.

87.3 Under staffing and high staff turn over

The PPDA latest staff structure provides for 97 posts out of which only 59 had been filled, leaving a gap of 38 vacant posts. Details in table below:

<table>
<thead>
<tr>
<th>Department</th>
<th>No. of staff who left organization 2012/13</th>
<th>No. of staff required as per new structure</th>
<th>Filled positions</th>
<th>Vacant Positions</th>
<th>% of vacant positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Administration</td>
<td>7</td>
<td>20</td>
<td>17</td>
<td>3</td>
<td>15%</td>
</tr>
<tr>
<td>Training and capacity Building</td>
<td>5</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Procurement audit and investigations</td>
<td>Nil</td>
<td>37</td>
<td>12</td>
<td>25</td>
<td>68%</td>
</tr>
<tr>
<td>Legal and compliance</td>
<td>1</td>
<td>15</td>
<td>12</td>
<td>3</td>
<td>20%</td>
</tr>
<tr>
<td>Corporate (Executive director’s office)</td>
<td>1</td>
<td>15</td>
<td>11</td>
<td>4</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>97</td>
<td>59</td>
<td>38</td>
<td>39%</td>
</tr>
</tbody>
</table>

From the above table, 14 staff left the entity, half (1/2) of them from Finance and Administration.

The entity is incurring high recruitment expenses owing to the high staff turnover.

The Accounting Officer explained that the Authority is currently undertaking a recruitment exercise to meet the critical staffing gaps and has also taken measures to improve on staff retention in form of enhanced salaries, promotions and trainings. The remaining vacancies will be filled when more resources are secured.

I urged management to expedite the recruitment exercise and seek more resources to have the structure filled.

87.4 Lack of capacity in Oil and Gas Sector

During the 263rd management meeting, it was observed that the Authority needed to build capacity in the oil and gas sector but no action has been taken to implement this. This makes it difficult for management to advise on procurement related issues in the sector.

The Accounting Officer explained that this was caused by inadequate funding limited by
the MTEF ceiling. The Authority is however, in touch with the Ministry of Energy and Mineral Development to help secure sponsorship for capacity building in Oil and Gas. I outcome of the action is awaited.

88.0 INSURANCE REGULATORY AUTHORITY (IRA) – YEAR ENDED 30 TH JUNE, 2013

88.1 Un-supported fuel consumptions

Fuel payments amounting to UGX 40,309,103 were not supported by vehicle movement logbooks and fuel requisitions. As such I was unable to confirm that the fuel expenditures were for intended purposes. The expenditure therefore remains unaccounted for.

I advised management to follow up on the accountability otherwise the funds are recoverable.

88.2 Budget performance

It was noted that some of the planned activities had not been undertaken or were reportedly still ongoing. The status of implementation is indicated in the table below:

<table>
<thead>
<tr>
<th>Budget items</th>
<th>Budgeted Amount</th>
<th>Budget breakdown</th>
<th>Status of implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Radio adverts and (insurance tips); They had planned to carry out 4 radio adverts on three radio stations for 5 months each at 180,000/-Monday – Friday</td>
<td>43,200,000</td>
<td>-</td>
<td>Started in June 2013, by the close of the financial year, only one radio advert had been done. By the time of the report, the program was still on going</td>
</tr>
<tr>
<td>Radio talks. The authority planned to carry out 1 radio talk show on three radio stations for 9 months each at 2,000,000/ for nine months</td>
<td>54,000,000</td>
<td>-</td>
<td>By the end of the financial year, the program had not started. According to the management, the program started in 2013/2014 and at the time of report, it was still on going</td>
</tr>
<tr>
<td>Market research &amp; developments (baseline survey)</td>
<td>17,000,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Drafting of the report</td>
<td>-</td>
<td>-</td>
<td>By the time of report, it was not yet done.</td>
</tr>
<tr>
<td>Development of data tools</td>
<td>-</td>
<td>4,000,000</td>
<td>By the time of report, it was not yet done.</td>
</tr>
<tr>
<td>Printing of the reports</td>
<td>-</td>
<td>8,000,000</td>
<td>By the time of report, it was not yet done.</td>
</tr>
</tbody>
</table>
Disseminating of information through workshops | 5,000,000 | By the time of report, it was not yet done.

| Market research & developments | 8,000,000 | - |
| (research on emerging issues) | |

| Oil insurance | - | 4,000,000 | No evidence of any research in this area |
| Agriculture insurance | - | 4,000,000 | No evidence of any research in this area |

Failure to implement the planned activities affects the fulfillment of the entity objectives.

The Accounting Officer explained that due to supervision/operational issues which were more urgent at the time, the activities were not undertaken but some have been carried out in the current year (2013/14) including the radio adverts and baseline survey.

I advised management to always ensure that all activities whose funding is received are undertaken.

### 88.3 Vacant posts

The authority structure/establishment indicated that (40) posts were approved, but only (34) had been filled leaving (6) vacant. Some of the vacant posts are of a technical nature and essential for the effective and efficient running of the Authority such as Director Human Resource, Manager Health Insurance and Assistant Director Finance. Failure to recruit such essential technical staffs may negatively impact on the entity's service delivery.

Management explained that the positions of Manager Health Insurance and Assistant Director Health Insurance were planned in line with the implementation of the National Health Scheme which has not been implemented. IRA intends to carry out a job analysis, evaluation exercise in the year 2014/15 that will form decision on the new staffing requirements including determining whether the unfilled vacancies mentioned above are still required.

The above actions are awaited.

### 88.4 Delays in change of asset ownership (Motor Vehicle and Land)
The Authority changed its name from UIC to IRA but has not transferred some of its fixed assets/property from UIC to IRA, three (3) years down the road. Lack of legal ownership poses the risk of loss of these assets to third parties.

The Accounting Officer explained that an attempt to register the cars online in IRA names was not successful due to the differences in names but and management continues to pursue the matter to conclusion.

I await the outcome of management efforts.

88.5 **Un-justified additional per-diem for conference in Cairo Egypt**

Three Board members were paid a sum of UGX.27,066,000 as per diem for six (6) days to attend a meeting and a conference abroad. An additional per diem of UGX.5,928,000 was paid being seventh day per-diem. There was no evidence that the conference went beyond the original four days period for which six days per-diem was paid. This extra payment could have resulted into an over payment.

I advise management to recover the extra per-diem.

88.6 **Unapproved policies**

It was established that the authority had not approved a number of policies and guidelines. These include;

- Board charter
- Motor vehicle safeguard and maintenance Policy
- Risk Management Manual
- Investment policy

At the time of audit, these documents were still in draft form. It should be noted that these are very crucial documents in guiding the operations and management of the authority. Delays in putting them in place may lead to loss of direction thereby affecting efficiency and effectiveness of the entity.

Management explained that the above policies are still awaiting Board’s approval but there has been no board since September, 2013.
I urged the Accounting Officer to pursue the approval of the Board with the relevant authorities.

I advised management to ensure that the matter is resolved expeditiously.

**88.7 Imminent litigation due to non-performance of a Consultancy Contract**

The Authority was issued with a notice of intention to sue for delayed performance of a consultancy contract arising from a contract signed on 29th June, 2012 for conducting a study of Health Membership Organizations (HMOs), Health Insurance Organizations (HIOs) and Micro Insurances (MIs) and recommend an appropriate regulatory framework with a consultancy firm (Klarity Ltd) at a contract sum of USD176,524 (inclusive of taxes).

As indicated earlier the board halted the contract without communicating the decision to the consultancy firm.

Management explained that at its 205th meeting held on the 26th February 2014, the Board allowed the contracts to go on.

I advised management to expedite implementation of this contract litigant.

**88.8 Absence of a Regulatory Framework for HMOs, HIOs and MIs.**

Section 33A (1) (2) of the Insurance Amendment Act No.13 of 2011 (CAP 213) requires, a person proposing to transact business as a Health Insurance Organization (HIO) or a Health Membership Organization (HMO) to be licensed by the authority and to be regulated in accordance with regulations made under this Act in consultation with the Minister responsible for health and other stakeholders.

During the year, (10) HMOs were licensed by the authority to operate in the calendar year 2013. However, it was noted that there were no regulations to guide their operations.

Management explained that at its 205th meeting held on the 26th February 2014 the Board allowed the contracts with clarity to develop regulations to continue and a report from the consultant is awaited.

The guiding regulations are awaited.

**89.0 UGANDA SEEDS COMPANY LIMITED**
89.1 **Compliance with gou financial and other applicable regulations**

A review was carried out with regard to the Company’s compliance with applicable laws and financial regulations and it was observed that the Company had complied materially in all aspects except for the following matters;

89.2 **Valuation and Disclosure of Assets**

The Company’s assets were last revalued in 2005 and no subsequent revaluation had been carried out to ascertain the fair value of revalued assets. This is contrary to requirements of IAS 16, Property, Plant and Equipment, which require them to be revalued with sufficient regularity to ensure that they are stated at fair values. Fair value of assets could not be ascertained.

Management took note of the anomaly and promised to comply.

89.2.1 **Financial Records and Concession Fees**

According to the lease agreement, Nyakatonzi Cooperative Society was supposed to pay 1% of the annual sales generated from the use of the demised assets as concession fees. During the year, the Cooperative Society paid UGX 4,200,000 in concession fees. However, the Nyakatonzi Cooperative Society provided financial statements which could not be relied on to verify the concession fees since they were not presented in conformity with the IFRS. In the absence of reliable records I was unable to reconcile the amount that was paid to the gross sales.

Management explained that they would ensure that Nyakatonzi Growers Cooperative Society provide financial statements that are in conformity with IFRS and that concession fees are computed based on gross sales and paid accordingly.

I await the outcome of management efforts.

89.2.2 **Masindi Housing Estate and Stores**

Section 8.4 of the concession agreement requires that the leased buildings in Masindi are regularly maintained. However, it was noted that four houses were not maintained and were dilapidated.
Management explained that they had brought this to the attention of the Lessee and promised to follow up. I advised management to ensure that renovations being undertaken should cover the entire housing estate and the factory stores as agreed in the contract.

89.2.3 **Kasese Land**

It was observed that part of the land had been hired to the outside farmers groups without written consent of the Lessor. It was also observed that the land was not being utilized for seed production contrary to Section 2.2 of the agreement. About 80% of the land is idle.

Management explained that they would continue to engage the lessee to ensure full compliance in utilization of land and also to increase capacity utilization. I advised management to ensure that the lessee complies with the agreement and regular monitoring visits.

89.2.4 **Sub lease of Land in Kisindi**

It was observed that there were a lot of farmers groups that had subleased the land and planted maize on the basis of simple agreements with Farm Inputs Care Centre Limited (FICA) on a seasonal basis. FICA subleased the land to farmers groups without consultation with USL contrary to Section 8.7 (d) of the lease agreement which prohibits subleasing of land and properties by the lessee without consent of the lessor and GoU.

Management explained that they had communicated to FICA to seek permission from the lessor. I advised management to follow up the mater with FICA to ensure compliance.

89.3 **General Standard of Accounting and Internal Control**

It was observed that the Company had instituted adequate controls that operated throughout the period under review except for the following matters;

89.3.1 **Plant, Machinery and Equipment**

It was observed that among the assets conceded were vehicles and motor cycles. However, only land cruiser was in use and also needed major repairs and maintenance. It was also noted that the tractors and combine harvester were not in use contrary to
Section 8.4 of the agreement.

Management explained that the list of items to be boarded off had been provided to USL management and compliance with the lease provision and that the lessor would board off those surrendered by the lessee.

I await management action on the matter.

89.3.2 Garage Store in Kasese

It was noted that a lot of spare parts, tools, two typewriters and an electric power saw were in the store but not included in the asset list. There is a risk that these equipments could be stolen or misused since the lessor had no knowledge about their existence.

I advised management to consider commencing disposal procedure for the assets.

SECURITY

90.0 UGANDA AIR CARGO CORPORATION June 2013

90.1 Delayed submission of financial statements

The Uganda Air Cargo Corporation (UACC) Act 322 Sec.16 (3) requires the Corporation within six months after the end of each financial year, to submit by 31/12/2013 to the Minister and Auditor General the prepared financial statements. It was however observed that the accounts were submitted on 10/012014, 10 days after the statutory period. It was also noted that the period granted the Corporation is twice as long as that granted under the PFAA, 2003.

Management regretted the normally and promised to comply in future.

I advised the Accounting Officer to ensure that in future, the accounts are submitted in time. The law should also be harmonized in line with the PFAA, 2003.

90.2 Revaluation

IAS 16 (revaluation model) requires that revaluations should be carried out regularly so that the carrying amount of an asset does not differ materially from its fair value at the
balance sheet date. Uganda Air Cargo prepares financial statements applying IFRSs and therefore should have complied with the revaluation model. It was noted that the Corporation reported assets worth UGX.59,709,848,539 which were not revalued contrary to IAS 16.

The Accounting officer explained that revaluation was not carried out due to the high cost that would be involved. This will involve hiring of experts to revalue assets spread in different areas.

I advised the Accounting Officer to comply with the International Accounting Standard guidelines and have the assets revalued.

90.3 **Absence of controls for setting up tariffs and prices**

The corporation operates in a volatile market where tariffs and price charges keep fluctuating depending on the prevailing economic conditions at the time and negotiating power in the market. It was however noted that the corporation lacks documented policy controls on determination of tariffs and prices to be charged. This leaves staff at liberty to charge whatever price, a practice that may turn out to be uneconomical and prone to abuse. Price charges are determined by direct costs and overheads plus a mark up which is dependent on management and staff.

Management explained that the decision on tariffs is arrived at after consultation with the Accounting Officer or the Officer acting on his behalf.

I explained that despite the consultations, there is need to come up with a documented policy guidelines.

90.4 **Cash Payments**

Treasury Accounting Instructions require that all payments for goods and services received by an entity should be made by means of crossed cheques or direct bank transfers to the payees. A sum of UGX.15,120,952 was withdrawn cash and paid to suppliers to carry out various Corporation activities contrary to the TAI.

Management explained that cash is paid due to the nature of service being procured.

I advised the Accounting Officer to adhere to the financial regulations and seek authority
where need arises.

### 90.5 Staff recruitment

The Uganda Air Cargo Corporation (UACC) Act 322 Sec.1.6.2.4 mandates the Board, among other things, to appoint and discipline UACC staff. In addition, the Corporation’s Human Resources manual requires that for any vacant post, an advert in the papers should be run and necessary steps followed to have the post filled.

Contrary to the above, management of the corporation has not recruited a Procurement Officer; instead management uses the services of the MoFPED to perform the procurement function. In case the ministry decided to transfer the staff, the Corporation activities would be affected adversely. Further, the board has no mandate to discipline the staff in case of any insubordination. During execution of audit, it was noted that the seconded Procurement officer was most of the time not available which delayed the availability of vital information.

The Accounting Officer explained that the entity continues to use seconded officers such as procurement officer, engineers, pilots, lawyers among others who will be phased out with growth and capacity.

I advised management to put in place measures aimed at recruiting full time organization staff.

### 90.6 Staffing appointments

The Corporation has an establishment of 77 positions of which five posts remained unfilled by the end of the financial year. It was also noted that two officers have interchangeably been acting as Director Flight Operations for more than six months and have not been substantively appointed.

Management promised to have these posts filled as the financial position of the corporation improves.

Management action is awaited

### 90.7 Expiry of Memorandum of Understanding between Uganda Air Cargo Corporation and Ministry of Defence [Secondment of UPDF Officers to UACC]
The Uganda People’s Defense Forces (UPDF) has twenty two (22) Officers and militants seconded to Uganda Air Cargo Corporation. The memorandum of understanding signed on 30th March, 2010 between the two parties expired on the 30th March, 2013 and has not been renewed to date; implying that the services and costs of affected officers and militants are irregular.

Management explained that the process of renewing and regularizing the appointment of the above technical staff was initiated and the matter was before the Permanent Secretary, Ministry of Defence. The outcome is awaited.

90.8 **Non-delivery of service**

The Corporation made a payment of USD.5,000 to a local firm as part payment for the design and development of UACC brand name. Almost two years since the LPO was issued, no delivery of the service has been made, instead the company sued the Corporation for none payment.

Management responded that this matter is before court and the outcome of the Court ruling will affect management decisions.

I await the outcome of the court process.

90.9 **Expenditure on rent of USD.14,400 on a condemned structure**

The offices of the engineering department for the Corporation are being housed in a condemned and dilapidated structure belonging to Uganda Civil Aviation Authority at a monthly rent of USD.1,200. The offices appear inhabitable and the landlord has not taken any action to make the premises suitable for occupation.

Management explained that they have never received any official communication that the premises are condemned.

I have advised management to negotiate with CAA and have the premises renovated for the safety and comfort of staff.

90.10 **Land at Entebbe (Plot 103A-107A and Plot 137)**

In March 2010, Ministry of Defence authorized the Chairman Uganda Land Commission (ULC) to transfer land comprised in plots M.137 and 103A-107A situated on circular road
Entebbe to the Corporation for construction of its headquarters and a warehouse. Upon receipt of the letter from the Ministry of Defence, the ULC gave a lease offer to UACC after a payment of UGX 405,800,000 in premiums, fees and rent. The amount payable is irregular since both the Corporation and ULC are fully owned by government.

Management explained that the matter was being pursued with ULC who has promised to provide away forward.

The outcome is awaited.

**90.11 Small Aircrafts (Y-12s)**

The Corporation runs a fleet of four aircrafts; two big cargo planes (C-130s) and two small passenger planes (Y-12s). Although the two cargo planes are owned and fully registered in the Corporation’s names, the small passenger planes (Y-12 5XUYX and Y-12 UYZ) have never been transferred from the Ministry of Defence names into the Corporation’s names contrary to Cap.322 (17) of the Corporation.

The Accounting Officer explained that the Corporation is pursuing the matter with the supervising Ministry. I urged the Accounting Officer to expedite the process.

**91.0 NEC CONSOLIDATED & SUBSIDIARIES (June 2013)-NEC FARM KATONGA LTD**

**91.1 Going concern of NEC Farm Katonga Ltd.**

The farm land was given away and handed over to the Republic of Iran by Republic of Uganda to develop commercial agriculture but the 800 head of cattle are still on the farm land. This land is located in Gomba Mpigi district and measures 17 sq miles. The Board of Directors resolved to sell the cows at the farm but the process of disposal of the animals has not yet been completed. The future existence of the company is in doubt.

I advised management to ensure that the disposal of the animals is concluded and the funds transferred to the Consolidated Fund.

**92.0 NATIONAL ENTERPRISE CORPORATION – HEADQUARTERS**

**92.1 Non valuation of NEC Pharmaceuticals – assets**
NEC Pharmaceuticals assets were leased out under a joint venture in the financial year 2010/2011 to NEC Health world Joint Venture. These assets were disclosed as NEC investments at the end of financial year 2012/2013. However, the joint venture failed to take off. NEC decided to repossess the assets in the financial year 2012/2013, however, by the time the assets were taken over no valuation was done to determine the market values. Accordingly the assets were not reflected in the accounts were not prepared in line with IAS 16. There is alike hood that NEC incurred losses in this venture. Assets were misstated.

I advised management to value the assets in line with IAS 16.

92.2 Diversion of funds to NEC Katonga Farm

During the year under review management incurred a total of UGX.38,805,000 on NEC Katonga Farm Ltd, a subsidiary that has since been divested to Iranians and was not provided for in the budget.

Management explained that the Board resolved to sell the animals, but this process had delayed necessitating a borrowing. Once the animals have been sold, the funds will be recovered.

I await the recovery of this money.

93.0 NEC TRACTOR HIRE SHHEME LTD

93.1 Going concern-unlikely continuity of entity operations

The subsidiary incurred losses amounting to UGX.2,112,378,032 during the year purportedly due to the high expenditure on tractor upgrading and thus failed to remit any dividends as required. In addition, a loss of UGX.1,248,909,832 was incurred last year. This situation is likely to continue in the near future which creates uncertainty of the survival of the entity’s operations.

Management attributed the losses to the fact that the concept of tractor hire services was a relatively new phenomenon. Farmers possess a stereotype which the Scheme has sought to correct with aggressive sensitization. I await the outcome of the sensitization.

93.2 Trade debtors
At the close of the year, trade debtors amounted to UGX.253,986,438 as compared to UGX.69,929,291 at the beginning of the year, hence an increase of UGX.184,057,147 from the previous year which represents 263% rise in trade debtors. Most of the debts were carried forward from the previous year, an indication that the recovery rate is very slow.

Management attributed the increase in trade debtors to increase in volume of work undertaken by the company during the year. Actions aimed at recoveries of the outstanding debts were being made. I await the outcome of this exercise.

94.0 LUWERO INDUSTRIES LTD

94.1 Trade creditors

Included in the final accounts are trade creditors amounting to UGX.2,588,673,798. All these creditors have remained unpaid for a period of more than one year, a situation which may attract penalties and unnecessary litigation if no action is taken to settle the outstanding bills. In addition, other creditors and accruals worth UGX.2,663,761,518 have remained unpaid for over a year.

Management explained that creditors are monies owed to NORINCO for materials supplied before production was stopped. Ministry of Defence has taken over the debt and renegotiated for supply of new materials so that production can resume. Ministry of Defence has also taken over NSSF while other obligations have been taken over by MoFPED.

I advised management to ensure that the commitment control system is adhered to in the future.

94.2 Trade debtors

Trade debtors worth UGX.819,051,484 were disclosed during the year compared to the previous year debtors of UGX.876,823,143. It was noted that over 90% of debts have remained uncollected for a period of more than a year. There appears to be laxity on the part of management to collect these debts. Further, the guiding policy relating to management of debtors was not availed during the audit.
In response management stated that they have instituted recovery measures and at the
time of this report UGX.57,771,659 had been recovered. I brought it to the attention of
management that more effort was still needed to clear the outstanding balance.

94.3 **Other debtors and prepayments**

Included in the final accounts are other debtors and prepayments of UGX.719,032,539 of
which UGX.676,865,787 is a prepayment for WHT. This amount has remained
unrecovered for a period of more than one year.

Management explained that URA has advised that WHT prepayments are time bared and
therefore could not be claimed. Efforts to collect staff loans and advances have been
initiated including recovery from respective staff salaries. I have advised management to
bring the WHT prepayments issue to the attention of the board with aim of writing off
this amount. I also await the outcome of management effort to recover the advance and
loans.

94.4 **Obsolete materials**

Obsolete stock worth UGX.850,000,000 existed in the stores due to the closure of the
production lines in the factories. Management explained that this stock was brought at
the commencement of the industry and have become obsolete due to change in
production processes and machinery. I advised management to liaise with ministry of
Defence and have the stock boarded off.

94.5 **Missing funds-UGX.30,891,769**

Funds worth UGX.30,891,769 were found missing from the Luwero Industries’ account as
a result of the closure of a bank. According to the entity bank statement from the bank,
Luwero Industries had a credit balance carried forward of UGX.188,668,258 on 10th
September, 2012 when the bank closed. However, after another bank took over the
closed bank, a new bank account was opened in crane bank with a balance of
UGX.157,776,489 as at 01st October, 2012. Causing a difference of UGX.30,891,769.

Management explained that they have since written to the Director Commercial Banking,
Bank of Uganda requesting for intervention. I advised management to continue pursuing
the recovery of the funds.

**TRANSPORT AND WORKS SECTOR**
95.0 **UGANDA RAILWAYS CORPORATION (2011)**

95.1 **Non-compliance with International Financial Reporting Standards (IFRS)**

International Financial Reporting Standard (IFRS) 7 - Financial instruments: disclosures, requires an entity to disclose the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. These disclosures were not been made in the financial statements and to this extent the financial statements of the Corporation are not in compliance with IFRS 7. There is a possibility of misstatement of the financial position and performance of the Corporation.

Management explained that IFRS 7 was be applied in the annual period beginning January 01, 2012 after an assessment of risks is carried out to establish the extent to which the Corporation is exposed to risk arising from accounts receivable and accounts payable.

I advised that Management should make appropriate disclosures in the financial statements in compliance with IFRS 7.

95.2 **Non-compliance with IAS 16**

The corporation’s assets were last revalued in 1988. The revaluation model under IAS 16 Property, Plant and Equipment requires that, items of property plant and Equipment which are carried at the revalued amounts, be revalued with sufficient regularity to ensure that the carrying amounts do not differ materially from those which would be determined using fair value at the statement of financial position date. Although revaluation of some assets was carried out for the purposes of concession in April 2005, the results of the same cannot be relied upon for accounting purposes because of the valuation method adopted. This constitutes noncompliance with the revaluation requirements of IAS 16.

Management explained that this is due to the fact that, in the past, they were not able to engage a professional valuer for the Corporation’s vast assets located countrywide because of the huge costs involved. A request for Government to finance the revaluation
in 2002 and 2003 was not responded to. Management further indicated that the cash flows have now improved and funds will be availed for this exercise. The revaluation has been budgeted for and the process of engaging a valuer is scheduled for Quarter 4 of 2013.

I advised that all items of property, plant and equipment under the same asset category be revalued to ascertain the fair value at which they should be reflected in the financial statements.

95.3 Non impairment of assets

Included in plant and equipment are two boats namely MV Barbus and MV Mvule with a value of UGX.1.6 billion. Due to lack of insurance for the boats and the declining marine passenger services, the corporation suspended these services to Lake Victoria several years ago and the boats are anchored at port Bell with no economic benefits to the Corporation.

However, management has not assessed the impairment on these assets and the financial statements are not adjusted for impairment loss on these boats as required under IAS 36 “Impairment of assets”. This account treatment also contravenes the provision of IAS 16, Property, Plant and Equipment. There is a risk of misstatement of the Property Plant and Equipment value.

Management responded that this matter will be addressed during the revaluation exercise.

I recommended that Management assesses the impairment of the assets and adjust the financial statements to reflect impairment loss in the books as required under IAS 36 “impairment of assets”.

95.4 Improper recognition of investment in subsidiary

The Corporation holds the controlling (98%) stake in Nalukolongo Railway Workshop Limited (NRWL). The Corporation is still accounting for this investment in its books at cost – UGX.1.7 billion contrary to the requirements of IAS 27 and IAS 31. Pursuant to the concession agreement, NRWL’s assets were revalued and taken over by the
concessionaire and as such the corporation has no right to cash flows in form of dividends from NRWL. There is a possibility of misstatement of the non-current assets.

Management responded that NRWL is under liquidation. They explained that the investment will be written off after all the supporting documents have been obtained from the Government liquidator.
I await the outcome of management actions.

95.5 **Long term loans – lack of repayment and lack of review of the payment terms for the loans**

The Corporation recorded several long term loans in its books amounting to UGX 22,067,482,000. This compromises funds borrowed or mobilized by the government of Uganda from various multilateral and bi-lateral funding agencies for onward lending to the corporation. However, these loans have not been moving from year to year yet there is no documentation for rescheduling the terms of payment. There is a risk of misstatement of the non-current borrowings.

Management explained that they will follow up with the Privatization Unit and Ministry of Finance, Planning and Economic Development to establish the status of all pre-concession liabilities.
I await the outcome of management actions.

95.6 **Accounting for Government grants**

The Corporation Management does not properly account for Government grants in the accounts. As at 31st December 2011, the Government of Uganda's contribution to the corporation amounted to UGX 39.9 billion. These contributions comprise both non-monetary/capitalization grants and revenue grants which were used for asset acquisition.

This Government grant share has not been accounted for in accordance with the requirement of IAS 20, Government grants, which provides that Government grants which relate to assets including non-monetary grants at fair value, shall be presented in the statement of financial position either as deferred income or by deducting the grant in arriving at the carrying amount of the asset of which the deferred grant income should be amortized over the useful life of the assets. The deferred income and statement of
financial position are likely to be misstated.

Management explained that whereas URC treated the value of these assets as grants, the Ministry of Finance treats them as loans. The status as to whether these should be treated as grants or loans has since not been resolved. Management promised to follow up with the Ministry of Finance to establish the final position.

I advised Management to follow up the matter and comply with the relevant accounting standards in preparation of financial statements.

95.7 Lack of independent/external audit on concession fees income

I observed that no independent/external audit has ever been conducted by URC to ascertain the accuracy of concessions income from the Concessionaire-RVR. There is a possibility of misstatement of the concessions income.

Management acknowledged that an external audit has not been conducted by URC to ascertain the accuracy of concession fees income. They further explained that the Terms of Reference were ready and they are yet to engage a reputable International Audit firm to carry out assurance services.

I advised Management to urgently engage an external independent auditor to assess the accuracy of the income submitted by RVR to URC as provided in Section K (1-2) of the concessions agreement between GoU and RVR.

95.8 Revaluation Reserve

The directors undertook an in house valuation of all property, plant and equipment in 1988 to take into account the currency reform in 1987. The results were incorporated in the 1989 financial statements as a surplus in the capital revaluation reserve amounting to UGX.167,970 million (2010: UGX.167,970 million). This balance has been carried forward for a number of years yet the assets in question were being depreciated. This account treatment contravenes the provisions of IAS 16, Property, Plant and Equipment. There is a risk of misstatement of the non-current assets.

Management responded that a revaluation exercise has been planned, and adjustments to the account will be done during the posting of amounts arising from the revaluation.
The Corporation was not able to engage a professional valuer for the vast assets located countrywide because of the huge costs involved. Management further indicated since the cash flows had improved, funds will be availed for the exercise.

I advised that Management undertakes revaluation of its assets regularly as required by the Accounting Officer.

95.9 **Corporation losses and liabilities**

The Corporation incurred a net loss of UGX.3.98 billion during the year ended 31/12/11, the Corporation’s current liabilities exceeded its current assets by UGX.141.13 billion and its total liabilities exceeded its total assets by UGX.73.32 million. The Corporation has going concern challenges under the circumstances. The current operational level of the Corporation implies that the Corporation will not be able to honour its liabilities.

Management responded that they considered it appropriate to prepare the financial statement on a going concern basis on assumption that the corporation will continue in operational existence for the foreseeable future and will continue to get support from the Government of Uganda.

I advised that Management revisit the current loss making position and turn the Corporation into a profit making organization.

95.10 **Inadequate skills to use sun systems by the accounting staff at the Corporation**

I observed that the corporation uses Sun System that is server based. The utilization of this system is linked to ledgers and the trial balance. However, the accounts personnel still face some challenges in generating complete financial reports such as the statement of financial position and, income and expenditure statements from the system. While there is a server specifically for the Sun System, there is no System Administrator to control, manage and monitor the server. There is a risk of hacking into the system and, generating inaccurate and inconsistent financial reports.

Management explained that the statements from the system are not detailed enough to meet the needs of users and therefore financial statements are prepared using other computer applications like spreadsheets. Management is yet to procure an additional software to interface with the current software. This will solve the audit issue raised.
I recommended that the Corporation expedite the upgrade process and also provide refresher training to the staff. Management should also hire a Systems Administrator to control, manage and monitor usage of the system.

95.11 Inadequate system for tracking concessions income

During my review, I noted that the corporation relies entirely on the computations by the concessionaire (Rift Valley Railways) and eventual deposits on the Corporation’s bank account as basis to raise an invoice for the quarter. Invoices are raised post remittance by RVR. There is a high risk of misstatement of concessions income.

Management explained that they have planned for an assurance engagement, by a reputable International Audit firm, to review the accuracy of concession fees revenue with effect from 1st November, 2006 to date.

I advised that URC officials liaise with the RVR management to provide timely reports of income statistics for reconciliation with reports from the concessionaires by the Concession Department. Meanwhile the results of the audit are awaited.

95.12 Lack of full board committees

I observed that the board does not have fully constituted committees to conduct the business affairs of the corporation as required by good corporate governance practices. Among the committees that were lacking included the Audit committee and the standing committee. Without fully constituted committees the entity may not effectively achieve its objectives.

In response, Management indicated that the Board is thin on ground and therefore participates as a full board in all deliberations.

I advised that the board should form all the relevant committees as required by best corporate practices.

96.0 CIVIL AVIATION AUTHORITY- YEAR ENDED 30TH JUNE 2012

96.1 Receivables

96.1.1 Government owed Receivables
It was noted that among receivables, is a debt of UGX.48 billion owed by Government to the CAA. This debt results from mainly rental arrears of different Government departments/entities (from different Ministries) housed in CAA properties. There was no documentation to confirm that Government was committed to paying the debts owed since 2007. There was no agreement/memorandum of understanding signed between CAA and Government of Uganda. I was not able to ascertain whether the financial statements were fairly presented.

96.1.2 Provision for bad debts

UGX.28,998,294 in the debtors list relates to debtors who have not met their obligation to CAA in the last ten years. CAA policy on provision for bad debts provides for a maximum provision of 20% of the outstanding debt and does not allow 100% provision for bad debts even when debts are not likely to be collected. Refer to the table below:

<table>
<thead>
<tr>
<th>Account code</th>
<th>Debtor</th>
<th>Amount UGX</th>
<th>Last Date of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3D-A022</td>
<td>Agip</td>
<td>15,135,284</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-A024</td>
<td>Air Alexandra</td>
<td>464,939</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-A0450</td>
<td>Antonov airlines</td>
<td>555,726</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-A121</td>
<td>Air force base</td>
<td>3,168,859</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-B030</td>
<td>Bwambale Shoe Shinners</td>
<td>1,390,034</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-C121</td>
<td>C&amp;S Upholstery</td>
<td>1,050,000</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-C122</td>
<td>Casements (Africa)</td>
<td>6,830,886</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td>3D-C151</td>
<td>Colonel Khael</td>
<td>402,566</td>
<td>No payment since 2000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>28,998,294</strong></td>
<td></td>
</tr>
</tbody>
</table>

Management explained that Board approval will be sought to write off some of debtors who have closed their operations at the Airport and cannot be traced. Management further explained they are in the final process of procuring the services of external debt collectors to recover the other debts that are recoverable.
I advised management to undertake the necessary efforts to formalize the financial obligations between Government of Uganda and CAA. I also urged management to expedite the approval process.

96.2 Property, Plant and Equipment (Fixed Assets)

Updating of the Fixed Asset Register

CAA maintains a fixed asset register that is not regularly updated. The following were noted:

- The locations of buildings from code 101102046” to “101102198 were not defined in the asset register. There is a risk that the assets may be misappropriated without management’s notice.
- Some non-current assets had nil values hence understating the assets. Refer to the list below:

<table>
<thead>
<tr>
<th>Asset code</th>
<th>Description</th>
<th>Reg number</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>402402027</td>
<td>Volks wagen</td>
<td>UAA 278</td>
<td>CAA Hq’s</td>
</tr>
<tr>
<td>402402003</td>
<td>TOYOTA HIACE</td>
<td>UBA 999</td>
<td>CAA HQ’s</td>
</tr>
<tr>
<td>402402014</td>
<td>TOYOTA STALLION</td>
<td>UDB 492</td>
<td>CAA HQ’s</td>
</tr>
<tr>
<td>502501220</td>
<td>EAGLE FIRE PROFF SAFE</td>
<td></td>
<td>CAA HQ’s</td>
</tr>
<tr>
<td>402402016</td>
<td>TOYOTA COLLORA</td>
<td>UAA 074E</td>
<td>CAA HQ’s</td>
</tr>
<tr>
<td>402402049</td>
<td>NISSAN</td>
<td>UBH 557</td>
<td>CAA HQ’s</td>
</tr>
<tr>
<td>502501139</td>
<td>LOCABLE FILLING CARBINET</td>
<td></td>
<td>CAA HQ’s</td>
</tr>
</tbody>
</table>

Management explained that these assets had nil cost values because they had been fully depreciated in the last asset revaluation exercise carried out in 2006 and that fully depreciated assets were to be removed from the asset register. However at the time of writing this report, this action had not been effected. I advised Management to ensure that the fixed asset register is updated.

96.3 Time of capitalization of Non Current Assets

IAS 16 Property Plant and Equipment requires that assets are capitalized when they are delivered in the right location and are ready for use. It was noted that when capitalizing the standard was not adhered to. The entity capitalized assets at the time of payment instead of capitalizing. Some of the assets capitalized include:
<table>
<thead>
<tr>
<th>CODE</th>
<th>DESCRIPTION</th>
<th>Amount capitalized in 2011/2012 UGX</th>
<th>Capitalized in 2012/2013 (includes amount capitalized in previous years) UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>402402090</td>
<td>TOYOTA LAND CRUZER UAJ 795X</td>
<td>74,267,368</td>
<td>185,588,469</td>
</tr>
<tr>
<td>402402092</td>
<td>TOYOTA 30 SEATER UAR 722P</td>
<td>115,392,196</td>
<td>329,242,282</td>
</tr>
<tr>
<td>402402093</td>
<td>TOYOTA 14 SEATER UAR 718Y</td>
<td>63,938,465</td>
<td>132,530,510</td>
</tr>
<tr>
<td>402402093</td>
<td>TOYOTA 14 SEATER UAR O63Y</td>
<td>63,938,465</td>
<td>132,530,510</td>
</tr>
</tbody>
</table>

I advised management to adhere with the guidance of international accounting standards.

96.4 **Lack of physical verification of Non-current assets**

Section 7.1.1.11 of the CAA finance accounting policies and procedures manual requires physical verification of the authority’s assets at least once in every 3 years. It was noted that this has not been done. There is a risk that some of the current assets may be misappropriated. If the exercise was carried out, it would have helped in updating and cleaning up of the Assets Register. Management stated that the asset verification and valuation will be conducted in 2014. The the procurement process to appoint the asset valuer is in advanced stages. I await the outcome of management’s efforts.

96.5 **Governance and Human Resources Issues**

7.14.5 **Lack of a Board of Directors**

The CAA Board of Directors term of office expired in June 2013. By the time of our audit there was no Board to perform the oversight responsibilities that are normally performed by the Board. In absence of a Board, management is constrained in her service delivery. Management stated that the process of appointing a new Board is ongoing. I wait the outcome of management’s efforts.

96.6 **Status of implementation of the 5-year business plan**

CAA developed a five Year Business Plan (2012/13 to 2016/17) which was approved in September 2012. Some key deliverables for 2012/2013 were not met, for example; implementation of super AWOS at upcountry aerodromes and development of system
specifications for the Wind Sheer Radar, Internal Audit of Upcountry Aerodromes, Audit of serviceability of equipment at Dans & DAAS, Payroll Audit and Procurement Audit. The overall objective of the business plan may not be achieved.

Management explained that some activities could not be undertaken after funding by South Korean government failed. I advised management to always strive to achieve its targets as stipulated in the business plan in order to attain its business goals.

96.7 **Staff benefits**

I noted that some staff members were enjoying benefits, which were neither stated in the human resource manual nor in their individual staff employment contracts. From my sample, I noted that a sum of UGX 275,000,000 was spent on purchase of managers’ furniture that was approved by the board as furniture for heads of department’s respective homes. The managers were not entitled to the benefit and therefore the expenditure is irregular.

I advised that CAA Management should adhere to the guidelines and regulations as stated in the organization’s manuals. Any exceptions should be clearly documented on how it has been arrived at and approved.

96.8 **Expenditure**

**Overspending on Budget codes**

According to CAA Finance Accounting Policies and Procedures manual all spending is required with in the budget limits. Supplementary budgets shall be prepared to cater for emergency situations and no payment from Authority funds will be made unless authority has been given, either by the approval in the Annual Budget or by Budget Variation. However it was noted that expenditure exceeded the budget on various expenditure items while some expenditures had not been budgeted for. Refer to the table below;

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount per</th>
<th>Amount per</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>82-188</td>
<td>Shift Workers Meal</td>
<td>0</td>
<td>582,432,000</td>
<td>(582,432,000)</td>
</tr>
<tr>
<td>84-444</td>
<td>Roof Repairs</td>
<td>0</td>
<td>273,227,000</td>
<td>(273,227,000)</td>
</tr>
<tr>
<td>86-527</td>
<td>Terminal Benefits</td>
<td>1,844,206,000</td>
<td>2,974,580,504</td>
<td>(1,130,374,504)</td>
</tr>
<tr>
<td>82-183</td>
<td>Office tea and Meals</td>
<td>367,408,000</td>
<td>596,241,381</td>
<td>(228,833,381)</td>
</tr>
<tr>
<td>81-125</td>
<td>Per Diem</td>
<td>102,080,000</td>
<td>219,684,404</td>
<td>(117,604,404)</td>
</tr>
</tbody>
</table>
In absence of the Authority for reallocation, this expenditure is irregular. Management explained that sometimes overspending occurs due to unforeseen circumstances and emergencies. I advised management to ensure compliance with the CAA Finance Accounting Policies and Procedures manual.

**JUSTICE, LAW AND ORDER SECTOR**

97.0  **LAW DEVELOPMENT CENTRE – YEAR ENDED 30TH JUNE, 2013**

97.1  **LDC Land and Buildings**

The centre has land reflected in the financial statements at UGX.19.3 billion and buildings at UGX..4.37 billion as stated in the schedule of assets. The following observations have been made on review of land and buildings:

97.2  **Valuation of Land and Buildings**

Land and buildings are valued at UGX.19,300,000,000 and UGX.4,373,349,294 respectively. The Centre uses the revaluation model when measuring the value of land and buildings. The revaluation model requires assets to be revalued with sufficient regularity. However, the assets were last revalued six years ago, in February 2008. The value of land and buildings is likely to have been misstated as land appreciates rapidly annually.

Management explained that part of the land has been revalued although the valuation report was not availed. Management further explained that LDC has written a letter to the Chief Government Valuer requesting him to carry out valuation of the remaining land.

I await the results of management efforts and provision of the earlier report on the land valuation.

97.3  **Un-titled plots**
Plots 34,508,509,510,613,614,615, Block 9 Makerere, Kampala were acquired by the Centre under the land acquisition instrument S.1 No 74 of 1987-Kibuga block. However, it was noted that the plots do not have titles to prove ownership. The plots were also found not to be included in the asset register. There is a risk of loss of land since it is not appropriately recorded and its titles are unavailable.

Management explained that the Centre gave instructions to its advocates, to obtain titles of all untitled land, and that the process of obtaining titles is ongoing.

I advised Management to expedite the process and obtain titles for the plots and record the correct land values in the asset register.

97.4 Un-valued plots of land

It was also noted that six (6) plots of land in the fixed asset register did not have land titles and were not in the valuation report. The plots are allocated the following asset codes in the asset register; 167945, 157710, 933(2), 74, 933, 334593 (1). The Centre’s land is not only undervalued but cannot also be confirmed as LDC land.

Management explained that the process of obtaining land titles for the plots and valuing of the land is ongoing. I await the results of management efforts.

97.5 Encroached on Land

a) Plots 245,221,464

The Law Development Centre is the registered proprietor of Plot 221 block 9 Makerere as per instrument of Registration No.334591 of June 2003. Plots 245 and 464 were also acquired under statutory instrument No 74 of 1987. The three plots are valued at UGX.300,000,000 as follows-plot 221 (UGX.80m), Plot 245 (UGX.70m), Plot 464 (UGX.150m) as per valuer’s report of 2008. However, it has been observed that the plots are being used by bonafide occupants who have put up permanent structures thus encumbering any developments the Centre may wish to make.

Furthermore, the value of these plots has not been included in the value of the Centre’s land thus understating it by 300m.

Management responded that the legal process of securing the plots is ongoing at the land
division of the High court. I await the results of the court process.

b) **Plots 481 and 482**
The Law Development Centre is also the proprietor of Plots 481 and 482 block 9 Makerere, Kampala as per instruments of registration 334593 of 30th June 2003 and 334603 of 30th June 2003. The two plots are also being claimed by a Mailo land owner by the names Mary Nambozo Musisi Sebadda. The plots have not been valued but have been included in the asset register for the Centre without values.

Management explained that the LDC gave instructions to its advocate to handle the matter so that LDC can secure the plots. I await the results of management commitment.

c) **Plots 1 and 69 Bukoto Estate, Kampala**
The Centre is also the registered proprietor of plot 1 Bukoto Estate (Private Mailo under Register Volume No 1693 Folio 22) as per Instrument of registration No KLA 167945 of 17th August 1994 and plot 69 Bukoto Estate (Private Mailo under register volume 1537 Folio 25) as per Instrument of registration No KLA 157710 of 12th March 1993. The two plots have been valued at UGX.600,000,000 by the valuer.

Part of this land is occupied by people who claim to have bought the land from the caretaker and about 0.60 acres is occupied by the Northern by pass. I could not ascertain whether the centre was compensated by the Uganda National Roads Authority at the time the Northern by pass was being constructed. The plots have been recorded in the asset register but their value has not been added to the value of the Centre’s land. Management responded that LDC wrote a letter to the Chief Government valuer requesting him to value the land so that the LDC Management Committee can take a decision. I await the results of management efforts.

d) **Construction of the perimeter wall**
LDC contracted Home builders to construct a perimeter wall along the LDC magistrate’s court at a cost of UGX.195,000,000. The contract manager then varied the contract to include the upper boundary of the Centre. The extension works cost UGX.88,000,000. The cost of the extension works was not approved by the Contracts Committee although the work was done to completion. Management has since refused to pay for the works done and the asset acquired has not been recognized in the financial
statements since the extension works were not approved by the Contracts Committee.

Management in their response explained that according to the contract signed between LDC and the contractor, there were variations that were being claimed by the contractor. After completing the work, the contractor submitted his claim for additional works which Management was unaware of. The matter was considered by Management, and the Director communicated the management decision to the contractor and the Project manager.

Management was advised to resolve the matter with the contractor amicably.

e) **Delayed implementation of the Organizational Structure/restructuring**

The Centre/Board planned to carry out phase two of the restructuring exercise in the period under review in which number of staff expected be paid their retirement packages. It was however noted that the implementation of restructuring is not forth coming and this has not only lowered the morale of the expectant staff, but has also barred the Centre from operationalising the new structure thus affecting service delivery as most posts are to be filled with new structure.

The new Organizational Structure and Standing Orders are still undergoing the process of approval. Management further indicated that LDC is planning to implement the 2nd phase of restructuring before 30th June, 2014.

Management was advised to expedite the restructuring and implement the new organizational structure to enable the entity achieve its objectives.

97.6 **Governance**

97.6.1 **Absence of Audit Committee**

In my previous reports, management had responded that it would put the issue of the absence of the audit committee to the Management Committee. It was however noted that even in the most recently proposed organizational structure, the audit committee was not included. The role of the audit committee in the management of organizational risks cannot be over emphasized. Management responded that the issue will be addressed in the amendment of the LDC Act.
97.6.2 Internal Audit Function

The Centre has an established internal audit function with two staff. The unit is supposed to assist management in achieving its goals by evaluating controls to ensure systems function adequately, by identifying weaknesses and providing recommendations. It was however, noted that during the period under review the audit function as it did not make any reports to management. The resources spent on the unit were therefore not put to proper use.

Management explained that the department is to be strengthened by recruitment of qualified staff in the new structure.

I advised Management to strive and revive the department.

97.7 Joint Venture with Law Africa

The centre entered into a joint venture with Law Africa Publishing Limited for publishing Uganda Law Reports at 50/50% share of profits. In the joint venture, Law Africa was to provide general management and administration, publication and marketing of reports. LDC on the other hand was responsible for securing judgments, provision of certain editorial functions.

It has however, been noted that since the signing of the joint venture, more than four years ago, returns of UGX...3,733,929 only have been made to the Centre. There is a likelihood that the Joint venture is making profits but returns are not being remitted to LDC, and no follow-up on this matter is being made.

Some clauses of the Joint venture have not been exercised by the Centre for instance, Clause 13.1.1 requires the joint venture partners to meet once every quarter or whenever so required by either JV partner. I noted that no meetings are taking place. Clause 10.1.3 also provides that LDC's authorized auditors shall be accorded the opportunity to access all books and records of account. The clause has also not been exercised by LDC. I was unable to ascertain whether the joint venture has been beneficial to the Centre.

Management in response explained that the JV Partners met in November 2013. At the meeting, LDC strongly demanded accountability and all necessary documentation for
purposes of auditing but Law Africa did not respond. I advised management to reexamine the joint Venture agreement.

97.8 **Budget Performance**

During the year, the approved budget for the Centre amounted to UGX.8,091,694,000. However, by the close of the financial year, only UGX.7,351,878,445 had been received (representing about 91.4% of the budget) leading to a shortfall of UGX.739,815,555. It was further ascertained that only UGX.5,072,320,396 was spent, representing only 68.9% of the total receipts for the period.

A review of the Centre’s performance as per the 2012/13 Ministerial policy Statement revealed that various planned activities had not been done, while others remained incomplete. Details are below:

<table>
<thead>
<tr>
<th>Out Put</th>
<th>Planned out put</th>
<th>Actual out put</th>
<th>Variance</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Training</td>
<td>Train 500 students on Bar Course</td>
<td>373 students trained</td>
<td>127 students</td>
<td>Admission of students restricted through pre entry exams.</td>
</tr>
<tr>
<td></td>
<td>Train 1,200 students on Administrative Officers Law Course/Court bailiffs</td>
<td>694 students trained</td>
<td>506 students</td>
<td>Courses not publicized</td>
</tr>
<tr>
<td></td>
<td>Train 50 Students in Diploma in Human Rights</td>
<td>19 Students trained</td>
<td>31 students</td>
<td>Course not publicized</td>
</tr>
</tbody>
</table>
| Law reporting                | Publish Law Reports -3000 copies of 2010, 2006, 2011 | No law reports published | 3,000 copies of 2010, 2006 | • Volume 1 of ULR 2006, 2009 reported to have been printed in the preceding period.
<p>|                              |                                                      |                |                   | • 2010 and 2011 were completed but were awaiting approval of the editorial board headed by the Chief Justice. |
|                              | Produce Biannual High Court Bulletins                | No High Court Bulletins produced. | -- | Reported to have been produced in the preceding period                  |
|                              | Produce specialized Bulletins e.g Election Petition, Family law, Land) |                                | Not achieved |                                                                         |
|                              | Pilot on-line publication (reports accessed on line by subscription) |                                | Not achieved |                                                                         |</p>
<table>
<thead>
<tr>
<th>Activity</th>
<th>Expected outcomes</th>
<th>Actual outcomes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publish HCB Vol.2 for 2010 and Vol 1 and 2 for 2011</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Conduct two Research projects</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>In one topical legal issue</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>That is relevant to the teaching programme</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Train 500 bar Course students in Clinical Legal Education and Alternative Dispute resolution</td>
<td>405 students reported trained</td>
<td>95 students</td>
<td>Output could not be verified as training reports were not availed and financial resources towards the activity were not identified.</td>
</tr>
<tr>
<td>Handle 1,000 juvenile offenders and 600 petty offenders</td>
<td>764 Juvenile offenders diverted in Iganga, Kawempe, Wakiso, Rubaga, Nakawa, Lira, Kabale, Fortportal, Masindi and KCC</td>
<td>236 Juvenile offenders not diverted. 600 petty offenders not diverted.</td>
<td>Actual Output not verified as no reports were availed for verification</td>
</tr>
<tr>
<td>Reconcile 250 cases at court and 150 cases at police stations</td>
<td>1,340 cases reconciled in 14 courts</td>
<td>Over performance</td>
<td>Performance not verified as no reports were availed for verification.</td>
</tr>
<tr>
<td>Train 200 community leaders, 100 police officers and 20 Judicial officers and 400 FIT persons on the diversion programme</td>
<td>• 220 FIT persons trained. • 350 Community leaders trained.</td>
<td>• 180 FIT persons not trained. • 100 police officers not trained.</td>
<td>Output not verified as no reports were availed for audit.</td>
</tr>
<tr>
<td>Construction of the Auditorium</td>
<td></td>
<td></td>
<td>On going</td>
</tr>
<tr>
<td>Second phase of the restructuring</td>
<td></td>
<td></td>
<td>No implemented</td>
</tr>
<tr>
<td>Construction of the boundary wall</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Open up two more study centres in Hoima and Arua.</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Procure more computers for staff and students</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Continue with training of staff in pedagogical skills</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Install IFMS</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
<tr>
<td>Hold meetings with Law faculties to improve the standard of legal education</td>
<td></td>
<td></td>
<td>Not achieved</td>
</tr>
</tbody>
</table>

Management explained that activities that were not completed were due to lack of funds.
or delays in the procurement process. Part of the funds received were used for capital expenditure especially the auditorium that is being constructed.

I advised Management to ensure that all planned activities for which funds are released are completed as planned to enable the LDC deliver on its mandate.

98.0 AMNESTY COMMISSION

98.1 Depreciation of the Assets

A review of final accounts revealed that the Commission is using a modified basis of accounting where assets are capitalized and depreciated instead of expensing them in the year of acquisition in accordance with the Financial and Accounting Regulations 2003 and the Treasury Accounting Instructions. This creates an expense that ends up appearing as a loss in the Commission accounts.

The accounting treatment for assets and depreciation is not in line with the Accounting Finance and Regulations 2003 and Treasury Accounting Instructions. The treatment also affects consolidation of financial statements.

Management responded that they had written to the Accountant General for guidance, but had not yet received a reply.

I advised management to continue pursuing the matter with the Accountant General on the format and the presentation of accounts to conform to the current Government practice.

98.2 Unfilled positions on the Commission

According to the Amnesty Act 2009, the Commission should have six commissioners chaired by a Judge while running the Commission business. The extension of its mandate by a year would require having a full structure in order to accomplish its mandate. I observed that two commissioners who had left the Commission had not been replaced. This matter was raised in my previous year report to Parliament however no action has been taken to-date.

Absence of the commissioners is contrary to the provisions of the Amnesty Act. Further,
the inadequate composition of the Commission may affect the smooth running of Commission activities.

Management explained that they had contacted the appointing authority and await response.

I have advised management to follow up with the appointing authority to ensure that these vacancies are filled to enable them perform efficiently and effectively.