# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>2.0 REPORT AND OPINION OF THE AUDITOR GENERAL ON THE GOVERNMENT OF UGANDA CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2010</td>
<td>11</td>
</tr>
<tr>
<td>3.0 OTHER GENERAL OBSERVATIONS</td>
<td>34</td>
</tr>
<tr>
<td>4.0 OFFICE OF THE PRESIDENT</td>
<td>56</td>
</tr>
<tr>
<td>5.0 STATEHOUSE</td>
<td>58</td>
</tr>
<tr>
<td>6.0 OFFICE OF THE PRIME MINISTER</td>
<td>62</td>
</tr>
<tr>
<td>7.0 PUBLIC SERVICE</td>
<td>68</td>
</tr>
<tr>
<td>8.0 FOREIGN AFFAIRS</td>
<td>72</td>
</tr>
<tr>
<td>9.0 JUSTICE</td>
<td>77</td>
</tr>
<tr>
<td>10.0 FINANCE, PLANNING &amp; ECONOMIC DEVELOPMENT</td>
<td>91</td>
</tr>
<tr>
<td>11.0 AGRICULTURE, ANIMAL INDUSTRY &amp; FISHERIES</td>
<td>120</td>
</tr>
<tr>
<td>12.0 LANDS, HOUSING &amp; URBAN DEVELOPMENT</td>
<td>146</td>
</tr>
<tr>
<td>13.0 WATER &amp; ENVIRONMENT</td>
<td>153</td>
</tr>
<tr>
<td>14.0 EDUCATION AND SPORTS</td>
<td>175</td>
</tr>
<tr>
<td>15.0 HEALTH</td>
<td>204</td>
</tr>
<tr>
<td>16.0 WORKS, TRANSPORT AND COMMUNICATIONS</td>
<td>224</td>
</tr>
<tr>
<td>17.0 DEFENCE</td>
<td>243</td>
</tr>
<tr>
<td>18.0 INTERNAL AFFAIRS</td>
<td>260</td>
</tr>
<tr>
<td>19.0 INFORMATION AND COMMUNICATION TECHNOLOGY</td>
<td>277</td>
</tr>
<tr>
<td>20.0 LOCAL GOVERNMENT</td>
<td>283</td>
</tr>
<tr>
<td>21.0 TOURISM, TRADE &amp; INDUSTRY</td>
<td>304</td>
</tr>
<tr>
<td>22.0 ENERGY &amp; MINERAL DEVELOPMENT</td>
<td>308</td>
</tr>
<tr>
<td>23.0 GENDER, LABOUR AND SOCIAL DEVELOPMENT</td>
<td>326</td>
</tr>
<tr>
<td>24.0 EAST AFRICA AFFAIRS</td>
<td>331</td>
</tr>
<tr>
<td>25.0 ETHICS &amp; INTEGRITY</td>
<td>333</td>
</tr>
<tr>
<td>26.0 UGANDA POLICE</td>
<td>337</td>
</tr>
<tr>
<td>27.0 UGANDA PRISONS</td>
<td>346</td>
</tr>
<tr>
<td>28.0 MULAGO HOSPITAL</td>
<td>355</td>
</tr>
<tr>
<td>29.0 BUTABIKA HOSPITAL</td>
<td>362</td>
</tr>
<tr>
<td>30.0 NATIONAL AGRICULTURAL RESEARCH ORGANISATION (NARO)</td>
<td>366</td>
</tr>
<tr>
<td>31.0 NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS)</td>
<td>378</td>
</tr>
<tr>
<td>32.0 UGANDA NATIONAL ROADS AUTHORITY</td>
<td>393</td>
</tr>
<tr>
<td>33.0 NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY (NEMA)</td>
<td>447</td>
</tr>
<tr>
<td>34.0 ROAD FUND</td>
<td>451</td>
</tr>
<tr>
<td>35.0 JUDICIARY</td>
<td>357</td>
</tr>
<tr>
<td>36.0 PARLIAMENTARY COMMISSION</td>
<td>465</td>
</tr>
<tr>
<td>37.0 HEALTH SERVICE COMMISSION</td>
<td>473</td>
</tr>
<tr>
<td>38.0 JUDICIAL SERVICE COMMISSION</td>
<td>477</td>
</tr>
<tr>
<td>39.0 ELECTORAL COMMISSION</td>
<td>478</td>
</tr>
<tr>
<td>40.0 UGANDA HUMAN RIGHTS COMMISSION</td>
<td>482</td>
</tr>
<tr>
<td>41.0 PUBLIC SERVICE COMMISSION</td>
<td>482</td>
</tr>
<tr>
<td>42.0 UGANDA LAW REFORM COMMISSION</td>
<td>485</td>
</tr>
<tr>
<td>43.0 EDUCATION SERVICE COMMISSION</td>
<td>487</td>
</tr>
<tr>
<td>44.0 LOCAL GOVERNMENT FINANCE COMMISSION</td>
<td>491</td>
</tr>
<tr>
<td>45.0 UGANDA BLOOD TRANSFUSION SERVICES</td>
<td>495</td>
</tr>
<tr>
<td>46.0 UGANDA LAND COMMISSION</td>
<td>496</td>
</tr>
<tr>
<td>47.0 UGANDA INDUSTRIAL RESEARCH INSTITUTE</td>
<td>505</td>
</tr>
<tr>
<td>Page</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>48.0</td>
<td>UGANDA CANCER INSTITUTE</td>
</tr>
<tr>
<td>49.0</td>
<td>UGANDA HEART INSTITUTE</td>
</tr>
<tr>
<td>50.0</td>
<td>UGANDA AIDS COMMISSION</td>
</tr>
<tr>
<td>51.0</td>
<td>UGANDA MANAGEMENT INSTITUTE</td>
</tr>
<tr>
<td>52.0</td>
<td>MAKERERE UNIVERSITY</td>
</tr>
<tr>
<td>53.0</td>
<td>MBARARA UNIVERSITY OF SCIENCE AND TECHNOLOGY</td>
</tr>
<tr>
<td>54.0</td>
<td>KYAMBOGO UNIVERSITY</td>
</tr>
<tr>
<td>55.0</td>
<td>MAKERERE UNIVERSITY BUSINESS SCHOOL</td>
</tr>
<tr>
<td>56.0</td>
<td>GULU UNIVERSITY</td>
</tr>
<tr>
<td>57.0</td>
<td>BUSITEMA UNIVERSITY</td>
</tr>
<tr>
<td>58.0</td>
<td>ARUA HOSPITAL</td>
</tr>
<tr>
<td>59.0</td>
<td>GULU HOSPITAL</td>
</tr>
<tr>
<td>60.0</td>
<td>JINJA HOSPITAL</td>
</tr>
<tr>
<td>61.0</td>
<td>MBALE HOSPITAL</td>
</tr>
<tr>
<td>62.0</td>
<td>LIRA HOSPITAL</td>
</tr>
<tr>
<td>63.0</td>
<td>MASAKA HOSPITAL</td>
</tr>
<tr>
<td>64.0</td>
<td>FORT PORTAL HOSPITAL</td>
</tr>
<tr>
<td>65.0</td>
<td>KABALE HOSPITAL</td>
</tr>
<tr>
<td>66.0</td>
<td>HOIMA HOSPITAL</td>
</tr>
<tr>
<td>67.0</td>
<td>SOROTI HOSPITAL</td>
</tr>
<tr>
<td>68.0</td>
<td>MBARARA HOSPITAL</td>
</tr>
<tr>
<td>69.0</td>
<td>MOROTO HOSPITAL</td>
</tr>
<tr>
<td>70.0</td>
<td>MUBENDE</td>
</tr>
<tr>
<td>68.0</td>
<td>LONDON MISSION</td>
</tr>
<tr>
<td>69.0</td>
<td>NEW YORK MISSION</td>
</tr>
<tr>
<td>70.0</td>
<td>WASHINGTON MISSION</td>
</tr>
<tr>
<td>71.0</td>
<td>NEW DELHI MISSION</td>
</tr>
<tr>
<td>72.0</td>
<td>CAIRO MISSION</td>
</tr>
<tr>
<td>73.0</td>
<td>ADDIS ABABA MISSION</td>
</tr>
<tr>
<td>74.0</td>
<td>BEIJING MISSION</td>
</tr>
<tr>
<td>75.0</td>
<td>TOKYO MISSION</td>
</tr>
<tr>
<td>76.0</td>
<td>TRIPOLI MISSION</td>
</tr>
<tr>
<td>77.0</td>
<td>RIYADH MISSION</td>
</tr>
<tr>
<td>78.0</td>
<td>COPENHAGEN MISSION</td>
</tr>
<tr>
<td>79.0</td>
<td>NAIROBI MISSION</td>
</tr>
<tr>
<td>80.0</td>
<td>DAR-ES-SALAAM MISSION</td>
</tr>
<tr>
<td>81.0</td>
<td>ABUJA MISSION</td>
</tr>
<tr>
<td>82.0</td>
<td>BRUSSELS MISSION</td>
</tr>
<tr>
<td>83.0</td>
<td>ROME MISSION</td>
</tr>
<tr>
<td>84.0</td>
<td>JUBA MISSION</td>
</tr>
<tr>
<td>85.0</td>
<td>KINSHASHA</td>
</tr>
<tr>
<td>86.0</td>
<td>GENEVA</td>
</tr>
<tr>
<td>87.0</td>
<td>PRETORIA</td>
</tr>
<tr>
<td>88.0</td>
<td>KIGALI MISSION</td>
</tr>
<tr>
<td>89.0</td>
<td>MOSCOW MISSION</td>
</tr>
<tr>
<td>90.0</td>
<td>BERLIN MISSION</td>
</tr>
<tr>
<td>91.0</td>
<td>PARIS MISSION</td>
</tr>
<tr>
<td>92.0</td>
<td>TEHRAN MISSION</td>
</tr>
<tr>
<td>93.0</td>
<td>CANBERRA</td>
</tr>
<tr>
<td>94.0</td>
<td>ABU DHABI</td>
</tr>
<tr>
<td>95.0</td>
<td>BUJUMBURA</td>
</tr>
</tbody>
</table>

APPENDIX: GOVERNMENT OF UGANDA CONSOLIDATED FINANCIAL STATEMENTS
1.0 **INTRODUCTION**

I am required by Article 163(3) of the Constitution of the Republic of Uganda and Section 13 and 19 of the National Audit Act 2008 to audit and report on the Public Accounts of Uganda and of all public offices including the Courts, the Central and Local Government Administrations, Universities and Public Institutions of like nature and any Public Corporations or other bodies established by an Act of Parliament.

Under Article 163 (4) of the Constitution, I am also required to submit to Parliament by 31st March annually a Report of the Accounts audited by me for the year immediately preceding. I am therefore, issuing this report in accordance with the above provisions.

This is Volume two of my Annual Report to Parliament and it covers financial audits carried out on Central Government Ministries, Departments, Agencies, Universities and Uganda Missions abroad. It also includes special audits undertaken upon requests made by Parliament and Cabinet.

In this introduction, I give an overview of the financial audit work carried out, status of completion of the audits, summary of the audit opinions issued on the financial statements of the entities audited and a summary of the key audit findings arising from the audit.

Section 2 presents my findings and audit opinion on Government of Uganda Consolidated Financial Statements.

Section 3 presents the major general observations cross cutting issues arising from the results of the audits carried out.

Section 4 contains the detailed audit findings on each entity audit.
1.1 **STATUS OF COMPLETION OF AUDITS**

1.1.1 **Financial Audits**

The Directorate of Central Government is responsible for the audit of 21 Ministries, 26 Agencies, Commissions, Departments, 30 Uganda Missions abroad, 7 Public Universities, 15 Referral Hospitals, Uganda Revenue Authority and the Consolidated Government of Uganda Financial Statements. All the entities financial statements for the year ending 30th June 2010 were audited and audit reports issued separately on each of them.

The status of completion of the audits is indicated in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Total Number of Accounts</th>
<th>Accounts Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministries</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Agencies, Commissions, Departments</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Missions/Embassies Abroad</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Referral Hospitals</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Public Universities</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Uganda Revenue Authority</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>GoU Consolidated Financial Statements</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>101</strong></td>
<td><strong>101</strong></td>
</tr>
</tbody>
</table>

Out of the 101 entities audited, 40 entities had unqualified opinions, 58 had qualified opinions, 3 had disclaimer of opinion.

The table and graphs below provide a breakdown of the types of opinions issued. The basis used to arrive at the audit opinion is described in the separate reports issued on individual Ministries, Agencies, Missions/Embassies and Public Universities.
<table>
<thead>
<tr>
<th>UNQUALIFIED OPINION</th>
<th>Qualified</th>
<th>Disclaimer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Service Commission</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Road Fund</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Office of the President</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Ministry of Public Service</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Ministry of East Africa Affairs</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Ministry of Tourism, Trade &amp; Industry</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Ministry of Lands, Housing and Urban Dev.</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Ministry of Agriculture, Animal Industry &amp; Fish.</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Uganda Industrial Research Institute</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Directorate of Public Prosecutions</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Inspectorate of Government</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Uganda Blood Transfusion</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Local Government Finance Commission</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Parliamentary Commission</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Public Service Commission</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Uganda Aids Commission</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Uganda Heart Institute</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>State House</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>NEMA</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td></td>
<td>QUALIFIED OPINION</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>1</td>
<td>GoU Consolidated Financial Statements</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Defence</td>
<td>31</td>
</tr>
<tr>
<td>3</td>
<td>Office of the Prime Minister</td>
<td>32</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Foreign Affairs</td>
<td>33</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Water and Environment</td>
<td>34</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Local Government</td>
<td>35</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Education and Sports</td>
<td>36</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Information and Technology</td>
<td>37</td>
</tr>
<tr>
<td>9</td>
<td>Ministry of Finance, Planning &amp; Economic Dev.</td>
<td>38</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Works and Transport</td>
<td>39</td>
</tr>
<tr>
<td>11</td>
<td>Ministry of Gender, Labour and Development</td>
<td>40</td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>41</td>
</tr>
<tr>
<td>13</td>
<td>National Agricultural Research Organisation</td>
<td>42</td>
</tr>
<tr>
<td>14</td>
<td>Uganda Cancer Institute</td>
<td>43</td>
</tr>
<tr>
<td>15</td>
<td>Uganda Police</td>
<td>44</td>
</tr>
<tr>
<td>16</td>
<td>Uganda Prisons</td>
<td>45</td>
</tr>
<tr>
<td>17</td>
<td>Judiciary</td>
<td>46</td>
</tr>
<tr>
<td>18</td>
<td>Uganda Human Rights Commission</td>
<td>47</td>
</tr>
<tr>
<td>19</td>
<td>Uganda Land Commission</td>
<td>48</td>
</tr>
<tr>
<td>20</td>
<td>Law Reform Commission</td>
<td>49</td>
</tr>
<tr>
<td>21</td>
<td>Education Service Commission</td>
<td>50</td>
</tr>
<tr>
<td>22</td>
<td>Judicial Service Commission</td>
<td>51</td>
</tr>
<tr>
<td>23</td>
<td>Electoral Commission</td>
<td>52</td>
</tr>
<tr>
<td>24</td>
<td>Makerere University</td>
<td>53</td>
</tr>
<tr>
<td>25</td>
<td>Kyambogo University</td>
<td>54</td>
</tr>
<tr>
<td>26</td>
<td>Gulu University</td>
<td>55</td>
</tr>
<tr>
<td>27</td>
<td>Busitema University</td>
<td>56</td>
</tr>
<tr>
<td>28</td>
<td>Mbarara University</td>
<td>57</td>
</tr>
<tr>
<td>29</td>
<td>Ministry of Health</td>
<td>58</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>DISCLAIMER OF OPINION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ethics and Integrity</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Juba Mission</td>
<td></td>
</tr>
</tbody>
</table>
1.1.2 **Special Audits**

Under Section 13 (2) and (3) of the National Audit Act 2008, the President acting in accordance with the advice of Cabinet, or Parliament or the minister may request my Office to carry out special audits and make reports. During the period under review, I carried out eight special audits and these included:

- Unit cost Study of Education in Public Universities in Uganda
- Ntungamo – Kagamba bank account
- Engineering Audit of Kabale -Kisoro Road
- Outstanding Pension and Gratuity arrears
- End of year payments transactions
- Uganda Police Payroll
- Value for Money Audit of the construction of Uganda Investment Authority office building at Namanve.
- IT Audit of DMFAS
The key findings have been reported under the respective entities. The special audit relating to Makerere - NIC DAP Scheme is ongoing and the report will be issued in due course.

1.1.3 **Projects**

113 Government donor funded projects under various Ministries, Departments and Agencies were audited during the period under review. The results of the audit have been included in their respective parent entities under Part III of this report. The audit for Local Government Sector Investment Plan under the Ministry of Local Government and the Justice Law and Sector Programme under the Ministry of Justice and Constitutional Affairs were at advanced stages by the time of issue of this report.

1.1.4 **Tertiary Institutions**

Under the Universities and other tertiary institutions Act Section 91 (2), I am required to audit accounts of these institutions. During the period under review, I carried out an inspection of 51 tertiary institutions in the Education Sector. The results of these inspections have been included under the detailed report of Ministry of Education and Sports.

1.2 **PARTICIPATION IN PUBLIC ACCOUNTS COMMITTEE MEETINGS**

This office participated in the deliberations of the Public Accounts Committee where my Annual Reports to Parliament for the financial years 2008 and 2009 and the special audit report on CHOGM were discussed.

1.3 **TREASURY MEMORANDA**

The Treasury Memoranda are prepared by the Executive (Treasury) in response to the recommendations made by Parliament regarding the Annual Report of the Auditor General. The last Treasury Memorandum issued was for the year 2004/05 as indicated in the table below;
The details are as shown in the table below:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Date of issue by Min. of Finance</th>
<th>Date of receipt by OAG</th>
</tr>
</thead>
</table>

Section 13(f) of the National Audit Act, 2008 requires the Auditor General to audit the Treasury Memoranda. Plans are underway to undertake the audits during the years 2011 and 2012.

1.4 **KEY AUDIT FINDINGS**

A summary of the key findings arising from the audit of central government, ministries, agencies and departments is highlighted below:

- **Government borrowings from Bank of Uganda increased during the period under review by 25.8 per cent from Shs.25 trillion to Shs.3.1 trillion which is beyond the statutory limit prescribed under the Bank of Uganda Act.** Included in the borrowings made during the year, was Shs.449 billion borrowed without the approval of Parliament which was also not recognized in the GOU Consolidated Financial Statements. There is need to minimise the level of borrowings in order to mitigate the negative impact it may have on the economy.

- **There is still uncertainty on the recoverability of On Lent Loans to Private Enterprises totalling to Shs.422,941,195,891.** Efforts by the Treasury to seek/effect recovery have been futile.

- **Delays by government to correct an error in the Excise Tariff Amendment Act resulted into a total of Shs.50,919,181,337 collected in taxes by URA refundable to the tax payers.** Authority has been granted to URA by Ministry of Finance to retain at source the amount and effect refund without parliamentary appropriation.
• Under the HIPIC debt relief agreement between Government of Burundi (GOB) and GoU, GOB agreed to provide debt relief to GoU by cancelling outstanding interest of US$5,504,302. However, under unclear circumstances the interest cancelled was later amortized as an ex gratia payment to GOB without Parliamentary Authority. In addition US$8,166,466 paid in settlement of the principal amount is yet to be fully acknowledged as received by GOB.

• 13 new foreign loans worth US $.664,150,042 had their credit agreements signed before approval of Parliament. There is a risk of committing government to obligations/ventures which may eventually be rejected by Parliament.

• 6 loans worth US$.96,552,450 had not been disbursed by the end of the year. Some of these loans had been approved way back in 2007/2008 and 2008/2009. There is a risk that government may be losing a lot of funds in commitment fees especially if the agreed conditions have not been fulfilled to warrant disbursement.

• Delays by the Treasury to release funds during the last quarter of the financial year (2009/10) to Ministries, Agencies and departments led to the bulk of the amounts not being utilized by the year end. This affected the operations of most entities.

• 39 entities incurred expenditure which exceeded their approved budgets by a total of Shs.23,354,218,105 without the authority of Parliament. This represents 0.43% of the approved budget.

• Expenditure amounting to Shs.30,466,326,084 and Euros.7,640.54 incurred by 37 entities remained unaccounted for contrary to
financial regulations which require all the expenditure to be accounted for by the year end. This represents 0.6 percent of the total expenditure. I did not obtain reasonable assurance that the funds were applied to the intended purposes

- **Shs.97 billion is lying idle on Escrow Accounts maintained by Ministry of Energy in Bank of Uganda.** The amounts were not recognized in the GoU financial statements.

- **There was erroneous computation of variation of price (VOP) under the Price Adjustment Clause in the various road construction contracts and; overpayments arising from wrong measurements and inclusion of unexecuted works in the interim payment certificates (IPCs) by the supervising consultants leading to estimated overpayments of Shs. 33.5 billion to contractors.** I have recommended that the introduction and application of the price variation adjustment clauses be reviewed. UNRA should also review all the payments erroneously made and effect recoveries accordingly.

- **There was nugatory expenditure arising from compensation and court awards due to cancellation of contracts.** Collection of trade taxes by the URA on these expenditures has been futile. In addition, a review of a sample of files for compensation and court awards revealed weaknesses in the management and verification of claims. There were delays by MDAs in giving timely instructions to the Attorney General while defending Government, weaknesses in record keeping by the Ministry of Justice and Constitutional Affairs, failure to promptly settle court awards leading to escalation in costs and lack of proper valuation of compensation claims. These general weaknesses should be addressed in order to mitigate the risk of Government incurring nugatory expenditure.
Government engaged a vendor to develop and install the National Security Information System at a contract amount of €64,231,371.49 through single sourcing. The use of single sourcing in a project of this magnitude exposed government to the risk of not achieving value for money through unfavourable pricing. The implementation of the project needs to be closely supervised and monitored to ensure that it achieves the expected benefits.
2.0 REPORT AND OPINION OF THE AUDITOR GENERAL ON THE GOVERNMENT OF UGANDA CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2010

I have audited the Consolidated Financial Statements of the Government of the Republic of Uganda as set out on pages 11 to 76 of appendix i. These Financial Statements comprise of the Consolidated Statements of Financial Position, Statement of Financial Performance, Statement of Changes in Equity, Cash flow Statement together with other accompanying statements, notes and accounting policies.

Management Responsibility
Under Article 164 of the Constitution of the Republic of Uganda and Section 8 of the Public Finance and Accountability Act, 2003, the Accounting Officers are accountable to Parliament for the funds and resources of the Votes/Entities under their control. The Accountant General is also responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with the requirements of the Public Finance and Accountability Act 2003, and Generally Accepted Accounting Practice, and for such internal control as is determined to be necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

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

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

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

**Basis for Qualified Opinion**

- **Advances to Government by Bank of Uganda**
  Advances amounting to Shs.449,896,709,621 made to government by BOU during the year under review were not disclosed in the consolidated financial statements, hence understating the liability position and cash or expenditure balances. In addition, the advances lacked the approval of Parliament contrary to the law.

- **Receivables**
  Included in the receivables of Shs.1,004,728,957,544 disclosed in the financial statements is an amount of Shs.422,941,195,891 in respect of loans to state enterprises, private enterprises and agencies whose recoverability remains uncertain.

**Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph;
The Consolidated financial statements fairly present in all material respects the financial position of the Government of Uganda as at 30\textsuperscript{th} June, 2010 and the results of its operations and cash flows for the year then ended, and comply in all material respects with the Public Finance and Accountability Act, 2003 and the modified cash basis of accounting described under the accounting policy 2(a).

The expenditure and receipts have been applied in all material respects for the intended purpose.

**Emphasis of Matter**
Without qualifying my opinion further, attention is drawn to the matter described here under;

- **Excise Tariff (Amendment) Act 2008**
  A total of Shs.50,919,181,337 collected in taxes by URA was due for refund to the tax payers due to delays to effect amendments to the Excise Tariff Amendment Act.

John F.S. Muwanga

**AUDITOR GENERAL**

**KAMPALA**

**30\textsuperscript{th} MARCH, 2011**
PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL

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

2.1 Public Debt

2.1.1 Conflict between Fiscal and Monetary Policies

At the time of their introduction in the early 1990s, government Treasury Bills/Treasury Bonds were used as monetary policy instruments to sterilize excess structural liquidity. In recent years, the issuance of these securities has been playing dual liquidity management and deficit financing roles. According to BoU, this creates conflict between the fiscal and monetary policies, as a ‘single instrument cannot be used to achieve two separate objectives’.

Accordingly, it was recommended that monetary policy operations be separated from the primary securities auction, using the latter to finance the government’s domestic borrowing requirements, including re-financing maturing Government securities, and rebuilding of international reserves.

The Permanent Secretary/Secretary to the Treasury explained that the Treasury is in principle agreeable to the need to have separate instruments developed for monetary and fiscal policy management. He indicated that the way forward was being discussed jointly with the central bank and Ministry of Finance and that a committee had been put in place to carefully study the impending change in policy.

2.1.2 Advances to Government by Bank of Uganda

The Bank of Uganda (BOU) Act mandates the Central Bank to make advances to government. According to the BOU financial statements for the year ended 30th June 2010, government had increased its borrowing (loans and advances) from
the BoU to finance its operations. During the period under review, BoU loans and advances outstanding increased by 25.8 percent from Shs.2.5 trillion to Shs.3.1 trillion as shown in the table below:

**Loans and Advances to Government**

<table>
<thead>
<tr>
<th>Government Ministries</th>
<th>30-Jun-2010 Million Shs</th>
<th>30-Jun-2009 Million Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Project</td>
<td>17</td>
<td>1,015</td>
</tr>
<tr>
<td>Uganda Consolidated Fund</td>
<td>2,440,406</td>
<td>2,202,249</td>
</tr>
<tr>
<td>Other Government Capital</td>
<td>197,461</td>
<td>161,249</td>
</tr>
<tr>
<td>Deferred Expenditure</td>
<td>21,091</td>
<td>21,091</td>
</tr>
<tr>
<td>Gulf Steam</td>
<td>47,629</td>
<td>80,633</td>
</tr>
<tr>
<td>Classified</td>
<td>449,897</td>
<td>22,729</td>
</tr>
<tr>
<td>Development Finance Scheme</td>
<td>13,972</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,188,022</strong></td>
<td><strong>2,584,891</strong></td>
</tr>
</tbody>
</table>

*Source: ‘Bank of Uganda Financial Statements for the Year Ended 30th June 2010’*

Under Section 33 of the Bank of Uganda Act, 2000, the total amount of such advances shall not exceed 18 percent of the recurrent revenue of government and at any time when the limitation on the bank credit requirement is exceeded, the powers of the bank to grant additional finance shall cease.

GoU records show that by 30th June 2010, the recurrent revenue (including grants and HIPC Relief) amounted to Shs.5,335,597,123,094 which translates into a borrowing limit of Shs.960,407,482,157. However, the advances outstanding of Shs.3,188,022,000,000 as at 30th June 2010 were well above the authorized limit by Shs.2,227,614,517,843 contrary to the BoU Act.

In his response the Secretary to the Treasury acknowledged that the cumulative level of advances is rather high, but indicated that increase in advances during the year was within the statutory limit. He further stated that arrangements were being made to gradually reduce the outstanding amounts.
I advised him to bring the levels of borrowing down to the statutory limit of not more than 18% of the recurrent revenue of government at any time. I also advised that BOU guidance that this trend was likely to impact negatively on the economy should not be ignored.

2.1.3 **Classified Loans to Government**

Advances totaling to Shs.449,896,709,621 were reported in the BoU accounts as Other Loans to Government (Classified) made to GoU during the year under review. However, these loans had not been approved by Parliament by the time of issue of this report as required by Regulations, nor were they recognized in the GoU consolidated financial statements, hence understating the liabilities and cash or expenditure for the year.

In his written response, the PS/ST explained that there was an MoU between MoFPED and BoU specifying the terms of the loan. He further explained that the necessary adjustments would be made to the consolidated financial statements for the year 2010/2011 after appropriation.

2.1.4 **Deferred Government Expenditure (Shs.21.091 billion)**

This amount relates to a credit facility obtained by the government from BoU that was on-lent to Bassajjabalaba Hides and Skins Ltd (BHSL) in 2003 after depositing various land titles with the BoU. In my annual report for financial year 2007/2008 to Parliament, I indicated that government stood to lose in the event of the company failing to pay back the loan because the properties which BHLS had presented as security had their caveats fraudulently cancelled and the properties sold by the company.

Although I recommended that the matter be investigated with a view of revoking of the cancellation of the caveat and hence the purported sale of the mortgaged properties, government went ahead and repaid BoU Shs 21,091,491,676 without securing the titles from the BoU. This increased the risk of non-recoverability of the amounts from the company.
The PS/ST explained that the company won a case against Government in which the award raised the level of indebtedness of Government to the company well beyond the on-lent loan. As a result, Government undertook a debt swap by settling BHSL’s debt with BoU and in exchange reduced its indebtedness to BHSL. MoFPED requested the office (OAG) to undertake a verification of the compensation claims to Haba Group Companies.

I explained to the Treasury that the debt swap should have been undertaken after the verification requested by the Treasury and after Parliamentary appropriation.

2.2 **Disclosure of oil contingent Liabilities**

It was noted that GoU entered into production sharing agreements with a number of oil exploration companies in 2004. Salient in the agreements was the fact that recovery of expenses incurred in the process of exploration would be contingent upon the amounts of oil mined during the production phase.

I have advised the Accountant General to develop appropriate policies for their recognition and disclosure in the GoU financial statements.

The Accountant General explained that he would review the accounting procedures and policies on contingent liabilities and take appropriate action in the financial year 2010/2011.

I advised him on the need to follow best practice in coming up with the policy.

2.3 **Receivables**

Included under receivables of Shs.1,004,728,957,544 are outstanding on-lent loans to state enterprises, private enterprises and agencies. A schedule of such outstanding on-lent loans was obtained and reviewed with the objective of establishing whether the debtors were making repayments as scheduled and
confirming the accuracy of the movements on the loan accounts and the closing balances at year end.

It was noted that out of 40 loans to state enterprises, private enterprises and agencies, only seven were making repayments which translates into 17.5 percent performance. The other debtors with loans amounting to Shs.422,941,195,891 did not make any repayments during the year under review, despite the fact that some of these state enterprises were making profits. These un-performing debtors include the following:-

**Schedule of Un-Serviced loans**

<table>
<thead>
<tr>
<th>State Enterprises Debtors</th>
<th>Amounts UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kampala City Council</td>
<td>42,570,448,000</td>
</tr>
<tr>
<td>Kilembe Mines Ltd</td>
<td>19,559,000,000</td>
</tr>
<tr>
<td>Sugar Corporation of Uganda Limited</td>
<td>1,935,000,000</td>
</tr>
<tr>
<td>Uganda Cement (Hima)</td>
<td>936,354,208</td>
</tr>
<tr>
<td>Uganda Development Bank Limited/NPART</td>
<td>5,999,000,000</td>
</tr>
<tr>
<td>Uganda Printing &amp; Publishing Corporation</td>
<td>944,092,240</td>
</tr>
<tr>
<td>Uganda Railways Corporation</td>
<td>128,531,809,156</td>
</tr>
<tr>
<td>Uganda Tea Authority</td>
<td>295,092,000</td>
</tr>
<tr>
<td>Uganda Tea Growers Corporation</td>
<td>186,962,092,000</td>
</tr>
<tr>
<td>UGMA Engineering Corporation</td>
<td>24,750,880,000</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>412,483,767,604</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Enterprises</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Akamba Uganda Limited</td>
<td>329,045,798</td>
</tr>
<tr>
<td>Baggrey Trading Company Limited</td>
<td>358,326,024</td>
</tr>
<tr>
<td>BTS (U) Limited</td>
<td>173,730,610</td>
</tr>
<tr>
<td>Central Purchasing Company Limited</td>
<td>5,326,322,326</td>
</tr>
<tr>
<td>Dick Kizito</td>
<td>169,378,642</td>
</tr>
<tr>
<td>G M Combine</td>
<td>368,008,078</td>
</tr>
<tr>
<td>G M Tumpeco Limited</td>
<td>55,576,260</td>
</tr>
<tr>
<td>High Way Motors Limited</td>
<td>101,965,214</td>
</tr>
<tr>
<td>Jasaba Pharmaceuticals Limited</td>
<td>209,906,779</td>
</tr>
<tr>
<td>Kibuguma Coffee Growers Limited</td>
<td>58,300,476</td>
</tr>
<tr>
<td>Makyo Enterprises Limited</td>
<td>36,624,535</td>
</tr>
<tr>
<td>Marks Pharmaceuticals Ltd</td>
<td>72,487,473</td>
</tr>
<tr>
<td>Mpiima Trading Company Limited</td>
<td>58,673,804</td>
</tr>
<tr>
<td>Seki Trading Company Limited</td>
<td>145,683,024</td>
</tr>
<tr>
<td>Sembule Steel Mills Limited</td>
<td>385,862,329</td>
</tr>
<tr>
<td>Company</td>
<td>Amount</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Tank Hill Quarry Limited</td>
<td>37,343,399</td>
</tr>
<tr>
<td>Uganda Motors Ltd</td>
<td>118,469,894</td>
</tr>
<tr>
<td>UPET</td>
<td>2,424,794,521</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>10,430,499,186</strong></td>
</tr>
<tr>
<td>Agency</td>
<td></td>
</tr>
<tr>
<td>National Council of Sports</td>
<td>26,929,101</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>422,941,195,891</strong></td>
</tr>
</tbody>
</table>

In my previous reports to parliament, I advised that the non-performing debtors under the Japanese Non-Project Grant be forwarded to the Solicitor General for legal action with a view of recovering public funds due from them.

Government was advised to follow-up the non-performing entities to ensure full recovery of the amounts on-lent to them.

2.4 **Taxation**

2.4.1 **Excise Tariff (Amendment) Act 2008**

During the financial year 2007/2008, GoU increased Excise Duty on a litre of Diesel from Shs.450 to Shs.530 and on a litre of petrol from Shs.720 to Shs.850. To enable URA to levy and collect the increased Excise Duties w.e.f. July 1st, 2007, the Ministry of Finance issued Provisional Collection Order (PCO) pending the enactment of Excise Tariff (Amendment) Act 2008.

Eventually, the Excise Tariff (Amendment) Act 2008 was enacted but with two apparent errors namely:-

- Two commencement dates of 1st July 2007 and 1st July 2008

It was noted that from 1st November 2007, when the PCO expired up to 27th June 2008, URA collected Shs.107,103,372,387 in excess of Shs.450 per litre of diesel and Shs.720 per litre of petrol. Arising from the above errors, M/S Rock Petroleum (U) Ltd on behalf of Importers of Diesel and Petrol in Uganda sued, through M/s Muwema and Mugerwa Advocates and Solicitors, for refund of
excess collections on grounds that the Excise Tariff (Amendment) Act No. 5 2008 by which the URA levied and collected the increased Excise Duty was void and did not have the force of law and could not confer any authority on URA to collect the increased Duty because it did not effect the intended increase in the tax or amendment of the law. Judgment was made in favor of the tax payers and a sum Shs.50,919,181,337 was computed by URA as taxes refundable (after allowing for Shs.56,184,191,050 already refunded to various importers and tax exempt consumers basing on the contested rates of Shs.450 and Shs.720 per litre of diesel and petrol respectively).

Following the expiry of the PCO and URA having encountered legal challenges in the administration of the Excise Tariff (Amendment) Act No. 5 2008, records show that the matter was brought to the attention of Ministry of Finance, Planning and Economic Development on a number of occasions culminating into a letter dated December 2008, to the Ministry seeking corrections thereto. The delay to cause the necessary amendment led to loss of the government revenue. Records indicate that the Ministry allowed URA to retain an appropriate amount of revenue at source to have the claim settled without Parliamentary appropriation.

Management stated that the cause of the problem arises from the procedures adopted in preparation of the Acts for assent which do not have controls that ensure proper coordination between Ministry of Finance, Planning and Economic Development and the Legal drafting team in Parliament. Errors in the draft laws therefore go undetected. They further explained that arrangements were being made to have the funds appropriated by Parliament through supplementary funding.

I advised them to strengthen the coordination between Ministry of Finance, Planning and Economic Planning and Parliamentary Legal drafting team.
2.4.2 **Tax Remittances to URA**

During the financial year under review, a total of Shs.202,043,249,878 was withheld in lieu of taxes (i.e. PAYE Shs.160,264,918,119 and WHT Shs.41,778,331,759) and transferred by respective ministries to a URA collections account in BoU.

However, the remittances were made without identifying to URA the individual tax payers entitled to tax credits. The implication of this tax-payer-identity concealment is twofold, i.e.:-

- It abets tax evasion by deceptive business persons. URA is denied access to essential information for monitoring and enforcing tax compliance.
- URA is not able to issue TCC (Tax Credit Certificates). Accordingly honest business persons may be denied their tax credits entitlements.

The management of URA advised that implementation of e-tax in government would help address the problem. However, the Ministry of Finance was yet to issue directives and/or guidelines to MALGs to enable them migrate to e-tax.

I advised the Accountant General to work closely with URA to introduce e-tax in government.

The Accountant General explained that he is in the process of organizing seminars to sensitize MDA’s on e-tax matter.

2.5 **Foreign Debt Management**

2.5.1 **Burundi debt**

According to the agreement between the Governments of Burundi (GoB) and GoU dated 14th October 2005, the debt due to GoB stood at US$.14,170,768 as principal and interest. It was agreed that since a sum of US$.500,000 had been repaid in 1992, this would reduce the outstanding obligation to US$.13,670,768. The GoB also agreed to waive all outstanding interest amounting to
US$.5,504,302 in line with the HIPC debt relief terms, leaving a balance of US$.8,166,466 outstanding.

Communication from the Finance Minister of the Republic of Burundi, indicated that the agreed outstanding amount of Us$.8,166,466 was to be paid to a local company on a dollar account number 02501007274 with Bank of Baroda in return for the equivalent of scholastic materials supplied.

It was further agreed that US$.3,000,000 would be paid within thirty days of signing of the agreement and the balance of Us$.5,166,466 in four equal annual instalments effective August, 2006. The following matters were observed upon further examination;

2.5.1.1 **Earlier repayments than scheduled**

The (4) equal instalments were due at end of August each year starting 2006 and ending 2009. However it was noted that the repayments of the last three instalments were effected earlier than the scheduled dates as outlined below:

<table>
<thead>
<tr>
<th>Scheduled dates</th>
<th>Actual dates paid</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>30/08/2007</td>
<td>20/07/2007</td>
<td>$1,291,617</td>
</tr>
<tr>
<td>30/08/2008</td>
<td>20/07/2007</td>
<td>$1,291,617</td>
</tr>
<tr>
<td>30/08/2009</td>
<td>20/07/2007</td>
<td>$1,291,617</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$3,874,851</td>
</tr>
</tbody>
</table>

The early debt repayments were un-called for and may have affected the government cash flows since they had not been provided for. This could have been used in settling other debt obligations or financing government priorities.

2.5.1.2 **Acknowledgement of loan repayments**

In spite of several requests by the Ministry of Finance, the GoB had declined to confirm receipt of the funds remitted to Picfare Industries Ltd. As a follow-up, the Accountant General in a letter dated 31st January, 2008, also requested for the acknowledgement of full loan repayment amounting to US$.8,166,466.
A scrutiny of a schedule of exports of scholastic materials to Burundi by the company from 2005 to 2009 was obtained from URA and compared with the amount paid to them as per the agreement. It was established that the exports amounted to only US$.4,575,389 as opposed to the full amount of US$.8,166,466 paid to the company. This leaves a balance of US$.3,591,077 unaccounted for. There is a possibility that the balance of scholastic materials was not delivered.

In absence of formal acknowledgements coupled with under-delivery of scholastic materials by the company the assertion by government that the loan in question was fully repaid may be challenged.

2.5.1.3 Payment of waived interest

In accordance with the Debt Relief Agreement between the GoB and the GoU, the GoB accepted to provide a debt relief to the GoU by canceling all outstanding interest amounting to USD.5,504,302.07. However, the interest cancelled was amortized, as an ex-gratia payment to the GoB again through the company to enable the continuity of the supply of stationery to the GoB. The ex-gratia payment should not have been paid to the company in view of the agreed HIPC agreements.

Contravention of the HIPC arrangements may strain relations with the major donors in any future government financing needs. It can also set a bad precedent to other creditors whose loans Uganda had stopped repayments as per HIPC debt relief arrangements.

2.5.1.4 Parliamentary Authorization

I was not availed evidence of Parliamentary authorization for the USD.5,504,302.07 ex-gratia payment effected to the GoB. Besides, confirmation of the ex-gratia payment is awaited.
I have advised that;

- the acknowledgement receipts from the creditor for the full settlement of the loan should be further pursued with the GOB.
- the repayment of loan installments earlier than scheduled should be discouraged in future.
- there should be strict adherence to the HIPC debt relief arrangements and uniform treatment of all creditors under such terms.
- The ex-gratia payment to the GOB (US $ 5,504,302.07) should be regularized through Parliament.

2.5.2 **Performance of Foreign Debt**

The ministerial report to Parliament regarding loans, guarantees and grants was reviewed and compared with the schedule of external debts reported in the financial statements under review. The following matters were observed;

2.5.2.1 **Delay in disbursement of already approved loans**

A review of the schedule of approved loans submitted to Parliament together with the schedule of stock of foreign debts reported in financial statements revealed that six loans worth US$.96,552,450 had not been disbursed by the end of the year as detailed in the table below:-

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Project Names</th>
<th>Approval Date</th>
<th>Base Currency Amounts</th>
<th>Equivalent in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>Interconnection of Electric Grid</td>
<td>24/9/09</td>
<td>UA.7,590,000</td>
<td>11,534,954</td>
</tr>
<tr>
<td>ADF</td>
<td>Kampala Sanitation Programme Ph 1</td>
<td>24/9/09</td>
<td>UA.35,000,000</td>
<td>53,191,489</td>
</tr>
<tr>
<td>BADEA</td>
<td>Small Bridges in N &amp; NE Uganda</td>
<td>20/10/2005</td>
<td>USD.7,000,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>BADEA</td>
<td>Line of Credit to UDBL</td>
<td>29/9/09</td>
<td>USD.4,500,000</td>
<td>4,500,000</td>
</tr>
<tr>
<td>BADEA</td>
<td>Urban Markets &amp; Marketing developments Lot1</td>
<td>16/7/09</td>
<td>USD.10,000,000</td>
<td>10,000,000</td>
</tr>
</tbody>
</table>
It was noted that some of these loans had been approved way back in 2007/2008 and 2008/2009. There is a risk that government may be losing a lot of funds in commitment fees especially if the agreed conditions have not been fulfilled to warrant disbursement.

I advised Treasury to put in place mechanisms for monitoring and proper follow up of such non performing loans.

2.5.2.2 Loan Agreements Signed before Parliamentary approvals

According to Article 159 of the 1995 Constitution of Uganda, Government shall not borrow, guarantee, or raise a loan, except as authorized by or under an Act of Parliament. Specifically clause (3) of this article together with section 20(3) of the Public Finance and Accountability Act, 2003, provide that the terms and conditions of the loan shall be laid before Parliament and shall not come into operation unless they have been approved by a resolution of Parliament.

Contrary to the above, 13 new loans worth US $664,150,042 had their agreements signed and some disbursements made prior to Parliamentary approvals as detailed in the table below:

<table>
<thead>
<tr>
<th>Loan I.D</th>
<th>Creditor &amp; Creditor Ref.</th>
<th>Project Name</th>
<th>Date Signed</th>
<th>Date Parliament approved</th>
<th>Base Currency</th>
<th>Amount</th>
<th>Equivalent USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>20793000</td>
<td>UD – P2 &amp; JBIC</td>
<td>Upgrading Atiak – Nimule road project.</td>
<td>26/3/10</td>
<td>19/5/10</td>
<td>JPY</td>
<td>3,395,000,000</td>
<td>37,418,715</td>
</tr>
<tr>
<td>20794000</td>
<td>UD – P3 &amp; JBIC</td>
<td>Interconnectio n of Electric Grid of the 5 Nile Equatorial Lake Countries.</td>
<td>26/3/10</td>
<td>19/5/10</td>
<td>JPY</td>
<td>5,406,000,000</td>
<td>59,583,379</td>
</tr>
<tr>
<td>20796000</td>
<td>4/511 &amp; SAUDI FUND</td>
<td>Construction &amp; Equipping of 14 technical institutes</td>
<td>5/1/10</td>
<td>19/5/10</td>
<td>SDR</td>
<td>45,000,000</td>
<td>12,700,000</td>
</tr>
<tr>
<td>Loan ID</td>
<td>Amount</td>
<td>Description</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21558000</td>
<td>10,210,000</td>
<td>Vocational Educ. 21558000 1295 &amp; ADF Rural Income &amp; Employment Enhancement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20798000</td>
<td>22,950,000</td>
<td>1317P &amp; OPEC FUND Construction &amp; Equipping of 14 technical institutes for Vocational Educ.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20795000</td>
<td>120,000,000</td>
<td>IDA 4679 – UG &amp; IDA Transport Sector Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20788000</td>
<td>49,500,000</td>
<td>IDA 4554 – UG Energy for Rural Transformatio n II</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20789000</td>
<td>66,900,000</td>
<td>IDA 4625 – UG Northern Uganda Social Action Fund II</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21555000</td>
<td>52,510,000</td>
<td>ADB P – UG-FO -004 Mbarara – Nkenda &amp; Tororo – Lira Power Line</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20791000</td>
<td>4,500,000</td>
<td>BADEA Line of Credit 12/5/09 29/9/09 USD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20799000</td>
<td>6,200,000</td>
<td>IDA –4482 - UG Avian &amp; Human Influenza</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21554000</td>
<td>7,590,000</td>
<td>ADF P-Z1 – FAO - 021 Interconnection of Electric Grids</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21553000</td>
<td>35,000,000</td>
<td>ADB P-UG-E00-008 Kampala Sanitation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>664,150,042</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Some of these loans were signed four months prior to the Parliamentary approval. There is a risk of committing government to obligations/ventures which may eventually be rejected by Parliament. This may result into financial loss.

Management was advised to ensure that all loan agreements are signed after Parliamentary approval in accordance with the Constitution.

### 2.5.2.3 Payment of Commitment fees on Un-Disbursed loan amounts

During the year under review, commitment fees increased by 72 percent from Shs.3,319,653,353 recorded during the year 2008/2009 to Shs.5,699,698,947. Two of these loans (loan IDs 21553000 & 21555000) both signed in May 2009 did not have any loan disbursements at all by the financial year end. Delays in disbursements resulted into payment of Shs.559,852,291 in commitment fees on these two loans.
**Schedule of Commitment fees payments on undisbursed loan balances**

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Loan I.D</th>
<th>Project Name</th>
<th>Date Signed</th>
<th>Loan Amounts</th>
<th>Commitment fees UGX</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>21553000</td>
<td>Kampala Sanitation</td>
<td>11/5/09</td>
<td>35,000,000UA</td>
<td>225,771,119.96</td>
<td>Not Disbursed</td>
</tr>
<tr>
<td>ADF</td>
<td>21555000</td>
<td>Mbarara - Nkenda Transmission</td>
<td>13/5/09</td>
<td>52,510,000UA</td>
<td>334,081,171.33</td>
<td>Not Disbursed</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>559,852,291.29</strong></td>
<td></td>
</tr>
</tbody>
</table>

I advised Treasury to ensure full adherence to the disbursement conditions in order to minimize payments of commitment fees.

2.5.2.4 **Foreign Loans Disbursements Performance**

Loans whose disbursement dates had closed/ expired were analyzed to establish their performance levels. It was established that 14 foreign loans had not fully disbursed their loan portfolios with un-disbursed funds amounting to USD.120,992,461.56 as detailed in the table below:

**Schedule of Poorly Performed Disbursed Loans**

<table>
<thead>
<tr>
<th>LOAN_ID</th>
<th>CURR</th>
<th>Closing Date</th>
<th>LOAN_AMOUNT</th>
<th>Performanc e</th>
<th>%</th>
<th>Un-Disbursed</th>
<th>Equivalent in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>20777000</td>
<td>USD</td>
<td>31-DEC-08</td>
<td>7,000,000</td>
<td>63,682</td>
<td>1%</td>
<td>6,936,318</td>
<td>6,936,318.00</td>
</tr>
<tr>
<td>20762000</td>
<td>EUR</td>
<td>31-DEC-10</td>
<td>5,000,000</td>
<td>550,301</td>
<td>11%</td>
<td>4,449,699</td>
<td>5,419,258.55</td>
</tr>
<tr>
<td>20783000</td>
<td>SDR</td>
<td>31-DEC-10</td>
<td>22,000,000</td>
<td>2,463,003</td>
<td>11%</td>
<td>19,536,997</td>
<td>28,819,880.51</td>
</tr>
<tr>
<td>21542000</td>
<td>AFU</td>
<td>31-DEC-10</td>
<td>31,570,000</td>
<td>14,292,697</td>
<td>45%</td>
<td>17,277,303</td>
<td>25,486,506.86</td>
</tr>
<tr>
<td>20754000</td>
<td>SDR</td>
<td>27-OCT-10</td>
<td>13,900,000</td>
<td>6,634,523</td>
<td>48%</td>
<td>7,265,477</td>
<td>10,717,623.54</td>
</tr>
<tr>
<td>21545000</td>
<td>AFU</td>
<td>31-DEC-10</td>
<td>32,990,000</td>
<td>21,173,937</td>
<td>64%</td>
<td>11,816,063</td>
<td>17,430,392.39</td>
</tr>
<tr>
<td>20741000</td>
<td>USD</td>
<td>30-AUG-08</td>
<td>9,410,000</td>
<td>7,263,712</td>
<td>77%</td>
<td>2,146,288</td>
<td>2,146,288.00</td>
</tr>
<tr>
<td>21539000</td>
<td>AFU</td>
<td>31-DEC-10</td>
<td>21,931,228</td>
<td>18,597,270</td>
<td>85%</td>
<td>3,333,958</td>
<td>4,918,067.56</td>
</tr>
<tr>
<td>20767000</td>
<td>SDR</td>
<td>31-DEC-10</td>
<td>45,970,000</td>
<td>40,138,748</td>
<td>87%</td>
<td>5,831,252</td>
<td>8,601,935.39</td>
</tr>
<tr>
<td>20756000</td>
<td>SDR</td>
<td>31-DEC-10</td>
<td>17,700,000</td>
<td>15,907,656</td>
<td>90%</td>
<td>1,792,344</td>
<td>2,643,965.19</td>
</tr>
<tr>
<td>20771000</td>
<td>CNY</td>
<td>26-JUL-09</td>
<td>240,000,000</td>
<td>222,967,038</td>
<td>93%</td>
<td>17,032,962</td>
<td>2,221,669.44</td>
</tr>
<tr>
<td>21541000</td>
<td>AFU</td>
<td>31-DEC-10</td>
<td>23,740,000</td>
<td>22,101,568</td>
<td>93%</td>
<td>1,638,432</td>
<td>2,416,922.85</td>
</tr>
<tr>
<td>21538000</td>
<td>AFU</td>
<td>30-SEP-09</td>
<td>9,515,454</td>
<td>8,918,524</td>
<td>94%</td>
<td>596,930</td>
<td>880,557.60</td>
</tr>
<tr>
<td>21547000</td>
<td>AFU</td>
<td>31-DEC-10</td>
<td>27,010,000</td>
<td>25,414,850</td>
<td>94%</td>
<td>1,595,150</td>
<td>2,353,075.67</td>
</tr>
</tbody>
</table>

507,736,683 | 406,487,507 | 120,992,461.56
Some of these loans had performed by less than 50 percent. This implies that the approved work plans and budgets used to obtain the loans not have been fully achieved. Low disbursement performance may be a result of lack of capacity to absorb the loan funds and posses the risk of loss of goodwill among the creditor’s in future financial dealings.

Treasury should ensure that in future the implementing agencies are monitored to enable timely action on disbursements which may experience delays.

### 2.5.2.5 Low Disbursement of Active loans

Active loans include those loans whose closing dates have not yet expired and are still disbursing. 27 of these loans were reviewed to establish performance levels against disbursement time schedules. It was noted that some of these loans had low disbursements despite nearing their respective closing dates as detailed in the table below.

<table>
<thead>
<tr>
<th>LOAN_ID</th>
<th>Date Signed</th>
<th>Loan Amount</th>
<th>Equivalent in USD</th>
<th>Undisbursed</th>
<th>Equivalent in USD</th>
<th>Closing Date</th>
<th>% (Perf*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>21549000</td>
<td>26-Oct-07</td>
<td>19,210,000</td>
<td>28,337,513</td>
<td>9,522,501</td>
<td>14,047,059</td>
<td>31-Dec-11</td>
<td>50%</td>
</tr>
<tr>
<td>21556000</td>
<td>13-May-09</td>
<td>38,000,000</td>
<td>56,055,465</td>
<td>37,371,838</td>
<td>55,128,836</td>
<td>30-Sep-15</td>
<td>2%</td>
</tr>
<tr>
<td>21551000</td>
<td>11-May-09</td>
<td>45,000,000</td>
<td>66,381,472</td>
<td>44,059,092</td>
<td>64,993,498</td>
<td>31-Dec-14</td>
<td>2%</td>
</tr>
<tr>
<td>21552000</td>
<td>11-May-09</td>
<td>52,000,000</td>
<td>76,707,479</td>
<td>50,712,720</td>
<td>74,808,556</td>
<td>31-Dec-14</td>
<td>2%</td>
</tr>
<tr>
<td>21554000</td>
<td>13-May-09</td>
<td>7,590,000</td>
<td>11,196,342</td>
<td>7,590,000</td>
<td>11,196,342</td>
<td>31-Dec-14</td>
<td>0%</td>
</tr>
<tr>
<td>21555000</td>
<td>11-May-09</td>
<td>35,000,000</td>
<td>51,630,034</td>
<td>34,831,195</td>
<td>51,381,022</td>
<td>31-Dec-14</td>
<td>0%</td>
</tr>
<tr>
<td>21555000</td>
<td>13-May-09</td>
<td>52,510,000</td>
<td>77,459,802</td>
<td>52,510,000</td>
<td>77,459,802</td>
<td>31-Dec-13</td>
<td>0%</td>
</tr>
<tr>
<td>21550000</td>
<td>15-May-08</td>
<td>56,650,000</td>
<td>83,566,898</td>
<td>40,125,944</td>
<td>59,191,539</td>
<td>31-Dec-13</td>
<td>29%</td>
</tr>
<tr>
<td>21543000</td>
<td>19-May-05</td>
<td>3,450,000</td>
<td>5,089,246</td>
<td>1,823,929</td>
<td>2,690,558</td>
<td>31-Dec-11</td>
<td>47%</td>
</tr>
<tr>
<td>20791000</td>
<td>12-May-09</td>
<td>4,500,000</td>
<td>4,500,000</td>
<td>4,500,000</td>
<td>4,500,000</td>
<td>31-Mar-12</td>
<td>0%</td>
</tr>
<tr>
<td>20792000</td>
<td>16-Jul-09</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>30-Mar-13</td>
<td>0%</td>
</tr>
<tr>
<td>20788000</td>
<td>27-Aug-09</td>
<td>49,500,000</td>
<td>73,019,619</td>
<td>43,607,436</td>
<td>64,993,498</td>
<td>30-Jun-13</td>
<td>12%</td>
</tr>
<tr>
<td>20781000</td>
<td>10-Oct-08</td>
<td>9,300,000</td>
<td>13,718,838</td>
<td>8,103,004</td>
<td>11,953,096</td>
<td>30-Nov-11</td>
<td>13%</td>
</tr>
<tr>
<td>20789000</td>
<td>27-Aug-09</td>
<td>66,900,000</td>
<td>98,687,122</td>
<td>55,567,288</td>
<td>81,969,742</td>
<td>31-Aug-14</td>
<td>17%</td>
</tr>
<tr>
<td>20790000</td>
<td>29-Oct-09</td>
<td>17,600,000</td>
<td>25,962,531</td>
<td>17,128,900</td>
<td>25,267,591</td>
<td>30-Jun-13</td>
<td>3%</td>
</tr>
<tr>
<td>20799000</td>
<td>10-Oct-08</td>
<td>6,200,000</td>
<td>9,145,892</td>
<td>6,003,786</td>
<td>8,856,448</td>
<td>30-Jun-12</td>
<td>3%</td>
</tr>
<tr>
<td>20768000</td>
<td>7-Apr-06</td>
<td>18,200,000</td>
<td>26,847,618</td>
<td>15,287,207</td>
<td>22,550,829</td>
<td>30-Sep-11</td>
<td>16%</td>
</tr>
<tr>
<td>20787000</td>
<td>27-Aug-09</td>
<td>99,000,000</td>
<td>146,039,239</td>
<td>69,513,959</td>
<td>102,543,087</td>
<td>31-Jul-12</td>
<td>30%</td>
</tr>
<tr>
<td>20799000</td>
<td>15-Sep-08</td>
<td>14,000,000</td>
<td>20,652,014</td>
<td>10,940,907</td>
<td>16,139,411</td>
<td>30-Jun-13</td>
<td>22%</td>
</tr>
<tr>
<td>20760000</td>
<td>23-Feb-05</td>
<td>47,900,000</td>
<td>70,659,389</td>
<td>25,971,847</td>
<td>38,312,210</td>
<td>30-Jan-12</td>
<td>46%</td>
</tr>
</tbody>
</table>
The poor disbursement performance means projects may not be completed on time resulting into extra administrative costs.

Treasury should ensure that the implementing agencies are closely monitored and full disbursement of loans is achieved in time in accordance with the agreed plans.

To address all the above issues, the Accountant General explained that;
- DMFAS would be upgraded from version 5.3 to 6.0 which would enable web based access. This would facilitate online sharing of information for all key users.
- Treasury would further follow-up on the affected projects and seek for extension or cancellation of the undisbursed balances where appropriate.
- Steps would be undertaken to strengthen monitoring mechanisms through restructuring of the Accountant General’s Office to comprise of a fully fledged project monitoring unit.

2.6 **Investment in Quality Chemicals Industries Ltd**

In July 2008, the Government signed an agreement with Quality Chemicals Industries Ltd (QCIL) where Government agreed to provide equity financing to the ARV and ACT manufacturing project. Accordingly, government paid Shs.10,000,000,000 to QCIL and was issued 2,000,000 Ordinary Shares in respect thereof. During the period under review government divested all its shares to the existing shareholders of the company ‘at par value’ (i.e., the shares were re-purchased at cost).
In my view, government would have realized much more from this divestiture if proper valuation was done and shares sold at market value. According to the Solicitor General, the shareholders were entitled to purchase the shares held by government at par value in accordance with the terms of the agreement.

2.7 **Late Release of Funds by Treasury**

Section 19(1) of the PFAA requires that, every appropriation by parliament of public funds for service of a financial year, and every warrant or other authority issued under this act in respect of a financial year shall lapse and cease to have effect at the close of that year and any unexpended balances repaid to the consolidated fund. It was noted however that the Treasury released a total of Shs.191,693,717,945 to 82 entities in the last two days of the financial year (i.e. 29th and 30th June 2010).

It was explained that the late release was a result of a Supplementary Budget that was passed by Parliament late.

Indeed a number of entities were not able to utilize these funds resulting in failure to execute a number of planned activities and the return of huge amounts of unspent balances to the consolidated fund. Such late releases of funds encourage entities to circumvent procedures and can also lead to misuse of funds.

Management attributed this shortfall to delays between MDAs receiving Cash Limits, requesting for cash releases and actual release from Treasury and advised that Treasury institutes cut off dates for receiving requests for cash releases from MDAs.

I advised further that early release of capital development funds would be a step in the right direction, meanwhile late supplementary releases should be avoided.
2.8 **Incomplete Financial Statements**

Consolidated financial statements are the financial statements of an economic entity presented as that of a single entity. Consolidation involves amalgamating financial statements of the controlling entity with those of the controlled entities after eliminating inter-entity transactions. A review of the consolidated accounts revealed that the financial statements of the controlling entity (i.e. Treasury Operations (TOP)) were incomplete as they partially captured Treasury expenses, revenue and assets.

At the level of consolidation, some entries were derived from unknown sources under the ‘consolidation line’ items which should be part of the Treasury operations to facilitate the consolidation of GoU financial statements. I advised Treasury on the need to put in place a proper system to ease the consolidation process.

The Accountant General explained that Treasury Operations (TOP) was a statutory vote that was created to handle public debt operations such as Principal, Interest, Commissions, Coupons and Discounts. It is not a controlling entity of the rest of GoU Votes. He promised to look into the modalities of creating a parent entity (Vote) controlling the rest of the Votes to ease consolidation.

2.9 **Accounting for Parastatal Organizations**

Section 7(3) of the PFAA requires the Accountant Generals Office (AGO) to specify for every Government Ministry, Department, Fund, Agency, Local Government or other reporting unit: i) the basis of accounting to be adopted and ii) the classification system to be used. The following matters were noted in relation to audits carried out in some parastatal organizations:

- A number of statutory organizations were made votes and have their funding appropriated by Parliament. These include PPDA, NEMA, UBOS, UTB and UNRA among others. A number of these institutions are considering moving
away from accrual to the cash accounting basis in order to comply with the reporting framework adopted by the Accountant General. In the case of UNRA a dual reporting basis is used where the entity produces accounts using both the accrual and cash accounting basis. This approach is costly.

- The National Medical Stores (NMS) is a parastatal that has an agency/principle relationship with government. NMS receives all government funding for the supply of medicines across government in both central and local government hospitals and health centers. The entity financial statements however, cover only its operations. The report on the performance of its agency role, which is very important for decision making purposes, was however not made.

- It was noted that some agencies like UETCL, declare profits which URA subjects to corporation tax assessment. The Agencies are contesting URA’s recognition of their surplus funds as taxable profits.

The AGO should clearly provide guidance to statutory bodies in relation to the basis of accounting to use. A move from accrual back to cash is a back step whose benefits, if any, will have to be analyzed very critically. It is also important that guidance is given on the type of financial statements to be produced by these institutions to ensure proper financial reporting.

2.10 **Road Fund**

The Government under the Uganda Road Fund Act established the Road Fund whose main purpose is to finance road maintenance activities throughout the country. By its nature, the fund should operate as a second generation fund whereby specific levies spelt out under the Act are collected by URA and the amounts remitted to the Road Fund to finance the fund operations. Surpluses may be used to either finance other GOU activities or may be passed over to the public in form of reduced levies. Deficits on the fund can be made good through Parliamentary appropriation.
I however observed that the Road Fund was still operating as any other entity of government. Its financing was still controlled by Ministry of Finance and was subject to budget ceilings and appropriation. This constrains its operations and explains why the financing of the road maintenance activities was still a challenge to government.

I advised that the financing of the Road Fund operations be reviewed to align it with best practices envisaged under the Road Fund Act.
3.0 OTHER GENERAL OBSERVATIONS

3.1 GOVERNMENT COMPENSATIONS

3.1.1 Compensations for Loss of Business

Government is incurring a lot in compensation of companies and individuals for loss of business arising from cancellation of contracts they entered into with government. It was noted that in a number of these cases trade taxes have not been assessed or collected.

Below are some of the compensation claims brought against government.

<table>
<thead>
<tr>
<th>Claimant</th>
<th>Nature of Compensation</th>
<th>Currency</th>
<th>Amounts claimed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheilla Investments</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>70,589,528,007</td>
</tr>
<tr>
<td>Yudaya International</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>63,654,752,244</td>
</tr>
<tr>
<td>Victoria International</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>2,801,585,133</td>
</tr>
<tr>
<td>First Merchant</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>5,652,231,004</td>
</tr>
<tr>
<td>International</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rhino Investments</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>14,965,569,313</td>
</tr>
<tr>
<td>Dura Cement</td>
<td>Loss of Business</td>
<td>US$</td>
<td>16,000,000</td>
</tr>
<tr>
<td>Beach Side Dev Services</td>
<td>Loss of Business</td>
<td>US$</td>
<td>1,900,000</td>
</tr>
<tr>
<td>Basil Engineering</td>
<td>Loss of Business</td>
<td>UGX</td>
<td>36,400,000,000</td>
</tr>
<tr>
<td>Xpectrade</td>
<td>Loss of Business</td>
<td>US$</td>
<td>1,404,662</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ZAR</td>
<td>1,980,000</td>
</tr>
<tr>
<td>Old Taxi Park</td>
<td>Loss of Business</td>
<td>US$</td>
<td>7,200,000</td>
</tr>
</tbody>
</table>

Documentation reviewed relating to the above cases revealed various matters as below:-

3.1.1.1 Basil Engineering

In 2004, GoU signed an agreement with Basil Engineering for the rehabilitation of Jinja-Bugiri Road (72.8 km). The contract was financed through a grant from the European Development Fund. Ten months later in December, 2004, the contractor complained and pointed out that GoU had delayed to pay VAT
amounts that were due, failed to make timely decision regarding modification of material specifications, failed to provide compensation for change in the VAT law among others. Following advice from the Solicitor General, GoU terminated the contract. The contractor later sued Government claiming €18 million. Inspite of the strong case government advanced to the tribunal in support of the termination of the contract, the tribunal ruled against government. Government later reached a negotiated settlement of Euro.13 million. A total of Shs.36,400,000,000 was paid without considering the applicable tax implications and therefore causing loss to government.

### 3.1.1.2 Haba Group

Haba Group of Companies, through four of its subsidiary companies (Sheila Investments, Yudaya International Limited, Victoria International and First Merchant International Trading Co. Ltd) entered into lease agreements and management contracts with Government for four properties namely; Nakasero market, Shawuriyako market, Constitutional Square and Owino market. All the agreements were subsequently terminated by Government.

It was noted that Government initially offered Shs.54 billion as compensation for the loss suffered. This figure was subsequently revised to shs.96 billion following an appeal by Haba and at the time of audit, the claimable amount had been raised to Shs.142 billion.

At the time of audit, a total of Shs.24,499,998,000 had been paid in disregard of an Agency notice which had been issued by URA.

### 3.1.1.3 Rhino Investments

Government entered into partnership with Rhino Investments to develop Kiseka market into a modern market. After some time, Government decided to terminate the partnership. According to Rhino Investments, the termination inflicted on them a loss of Shs.23,497,512,109. However, the Government valuer assessed the loss as amounting to only Shs.6.8 billion. This figure was objected
and after several interventions, an additional Shs.8.1 billion was agreed upon bringing the total compensation to Shs.14,965,569,313. At the time of writing this report, no taxes had been assessed by URA.

3.1.1.4 **Beach Side Development Services Ltd**

National Forestry Authority (NFA) entered into a contract with Beach Side Development Services Ltd, in which the latter was to develop an Eco Tourism Center along Entebbe Road. In a turn of events, the contract was annulled. In 2009, the company whose contract had been cancelled instituted a legal suit against government seeking compensation. Through mediation, government subsequently entered into a consent judgment in the amount of US$.1,900,000 as compensation of which US$.650,000 was paid. At the time of writing this report no taxes had been assessed by URA.

3.1.1.5 **Dura Cement**

Dura Cement Ltd was awarded a mining lease of 21 years in January 2007. Six months later in June 2007, the lease was cancelled in favor of another investment proposal submitted by another company, in the best interest of the country. One year later, in May 2008, Dura Cement Ltd instituted a legal suit against government seeking compensation quantified at US$.103.4 million. Through mediation, government subsequently entered into a consent judgment in the amount of US$.14,000,000 as compensation, US$.2,000,000 (general damages), 2.5 percent of the whole amount as legal costs, all payable at 8 percent interest from the date of the consent judgment. At the time of audit, Shs.18,832,400,000 had been paid.

It was noted that URA had actually issued an agency notice in the sum of Shs.3,214,569,600 to MoFPED (the collection agent) being 30 percent of the tax assessed pending resolution of an objection lodged by the tax payer. At the time of writing this report, the issue had not been resolved.
3.1.1.6 **Xpectrade Ltd**

In 2002 Uganda Investment Authority entered into a 30 year concession agreement with Xpectrade Ltd for the development and management of Namanve Industrial Park. In a turn of events, UIA refused to sign ‘*follow on agreements*’ which would operationalise the concession with the argument that many clauses were not serving the authorities (UIA) interests. Xpectrade instituted a legal suit against UIA seeking compensation quantified at US$.13.45 million. Through mediation, government subsequently entered into a consent judgment in the amount of ZAR.1,980,000 as special damages, US$.1,362,662 as compensations for loss of profits, US$.42,000 as management fees, all payable at 8 percent interest from the date of the consent judgment, all of which had been paid by the time of audit. By the time of writing this report no taxes had been assessed..

3.1.1.7 **Old Taxi Park**

A number of companies entered into sub lease agreements with Kampala City Council for plots around the old taxi park. In a turn of events, KCC changed its policies and opted to offer the first priority to seating tenants. Consequently the original awards were rescinded. A legal suit was been instituted by one of the companies whose lease was cancelled with a claim of US$.7.2 million as compensation for loss of business. The tax implications are yet to be established.

3.2 **EXCESS EXPENDITURE**

According to the audited financial statements submitted by Accounting Officers, 39 entities incurred expenditure which exceeded their approved budgetary provisions to the tune of Shs.23,354,218,105. This represents 0.43 percent of the GoU approved budget and is attributed to weaknesses in controls over budgetary expenditures or utilisation of revenues at source without authority. In some instances, it arises from weaknesses in record keeping and inappropriate application of accounting policies which result into inconsistencies in amounts disclosed in the GOU Consolidated Financial Statements.
This reported excess expenditure should be reconciled with the respective votes. Any amounts in excess of the approved budget should be regularized in accordance with the requirements of the Public Finance and Accountability Act, 2003. In addition, Accounting Officers are advised to ensure that activities are properly budgeted for and spending is within the allocated resources. The details relating to the various entities and the amounts spent beyond the budgetary provisions are indicated below:

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Approved estimates Shs.</th>
<th>Actual expenditure Shs.</th>
<th>(over) expenditure Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda Human Rights Commission</td>
<td>7,524,159,656</td>
<td>7,636,697,832</td>
<td>(112,538,176)</td>
</tr>
<tr>
<td>Uganda Cancer Institute</td>
<td>3,881,668,000</td>
<td>4,198,562,620</td>
<td>(316,894,620)</td>
</tr>
<tr>
<td>Uganda Heart Institute</td>
<td>2,610,400,000</td>
<td>3,303,113,921</td>
<td>(692,713,921)</td>
</tr>
<tr>
<td>National Agricultural Research Organ</td>
<td>52,472,880,000</td>
<td>57,680,544,188</td>
<td>(5,207,664,188)</td>
</tr>
<tr>
<td>Uganda Bureau of Statistics</td>
<td>28,811,998,000</td>
<td>32,506,985,008</td>
<td>(3,694,987,008)</td>
</tr>
<tr>
<td>Uganda Police</td>
<td>206,158,105,000</td>
<td>209,192,470,555</td>
<td>(3,034,365,555)</td>
</tr>
<tr>
<td>Uganda Prisons</td>
<td>56,093,746,132</td>
<td>59,563,565,663</td>
<td>(3,426,379,534)</td>
</tr>
<tr>
<td>Arua Hospital</td>
<td>4,292,925,000</td>
<td>4,319,624,924</td>
<td>(26,699,924)</td>
</tr>
<tr>
<td>Hoima Hospital</td>
<td>3,086,247,000</td>
<td>3,803,790,513</td>
<td>(717,543,513)</td>
</tr>
<tr>
<td>Jinja Hospital</td>
<td>5,597,138,000</td>
<td>5,623,321,759</td>
<td>(26,183,759)</td>
</tr>
<tr>
<td>Kabale Hospital</td>
<td>3,845,528,614</td>
<td>3,866,249,809</td>
<td>(20,721,195)</td>
</tr>
<tr>
<td>Masaka Hospital</td>
<td>4,315,024,400</td>
<td>4,548,405,647</td>
<td>(233,381,247)</td>
</tr>
<tr>
<td>Mbale Hospital</td>
<td>5,262,119,200</td>
<td>5,305,890,031</td>
<td>(43,770,831)</td>
</tr>
<tr>
<td>Soroti Hospital</td>
<td>3,730,394,727</td>
<td>3,974,785,245</td>
<td>(244,390,518)</td>
</tr>
<tr>
<td>Lira Hospital</td>
<td>4,014,433,364</td>
<td>4,056,481,961</td>
<td>(42,048,597)</td>
</tr>
<tr>
<td>Moroto Regional Hospital</td>
<td>172,666,700</td>
<td>187,765,154</td>
<td>(15,098,454)</td>
</tr>
<tr>
<td>Mbarara University</td>
<td>1,708,000,000</td>
<td>1,833,145,181</td>
<td>(125,145,181)</td>
</tr>
<tr>
<td>Uganda Mission at the United Nations, NY</td>
<td>5,720,070,786</td>
<td>9,226,730,400</td>
<td>(3,506,659,614)</td>
</tr>
<tr>
<td>Uganda High Commission in Canada</td>
<td>1,874,979,988</td>
<td>1,962,292,896</td>
<td>(87,312,908)</td>
</tr>
<tr>
<td>Uganda High Commission in Egypt</td>
<td>1,060,218,384</td>
<td>1,099,393,592</td>
<td>(39,175,208)</td>
</tr>
<tr>
<td>Uganda High</td>
<td>1,592,836,850</td>
<td>1,601,188,118</td>
<td>(8,351,268)</td>
</tr>
<tr>
<td>Embassy/Commission</td>
<td>Fiscal Year</td>
<td>Total Expenditure</td>
<td>Unaccounted Expenditure</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------</td>
<td>-------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Kenya</td>
<td>870,547,783</td>
<td>923,958,422</td>
<td>(53,410,639)</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1,235,765,959</td>
<td>1,278,742,138</td>
<td>(42,976,179)</td>
</tr>
<tr>
<td>South Africa</td>
<td>2,990,294,916</td>
<td>3,584,857,500</td>
<td>(594,562,584)</td>
</tr>
<tr>
<td>Rwanda</td>
<td>1,390,288,195</td>
<td>1,492,434,575</td>
<td>(102,146,380)</td>
</tr>
<tr>
<td>Japan</td>
<td>1,944,984,385</td>
<td>2,184,937,003</td>
<td>(239,952,618)</td>
</tr>
<tr>
<td>Italy</td>
<td>1,753,716,427</td>
<td>1,787,649,765</td>
<td>(33,933,338)</td>
</tr>
<tr>
<td>DRC</td>
<td>1,281,540,000</td>
<td>1,300,908,190</td>
<td>(19,368,190)</td>
</tr>
<tr>
<td>Sudan</td>
<td>1,084,845,097</td>
<td>1,110,043,737</td>
<td>(25,198,640)</td>
</tr>
<tr>
<td>Germany</td>
<td>1,880,916,620</td>
<td>2,097,575,761</td>
<td>(216,659,141)</td>
</tr>
<tr>
<td>Australia</td>
<td>1,140,673,084</td>
<td>1,262,357,788</td>
<td>(121,684,704)</td>
</tr>
<tr>
<td>Abu Dhabi, UAE</td>
<td>1,595,006,000</td>
<td>1,833,865,976</td>
<td>(238,859,976)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>420,994,118,267</strong></td>
<td><strong>444,348,336,372</strong></td>
<td><strong>(23,354,218,105)</strong></td>
</tr>
</tbody>
</table>

### EXPENDITURE NOT ACCOUNTED FOR

During the financial year under review, a total of Shs.30,466,326,084 and Euros.7,640.54 representing 0.6 percent of the GoU total expenditure (excluding expenditure at the Districts and lower Local Governments), remained unaccounted for contrary to financial regulations which require all the expenditure to be accounted for by the year end. The expenditures were in form of advances to individuals and departments totaling to Shs.23,281,326,084 and expenditure lacking adequate supporting documents totaling to Shs.7,185,209,718. I was not able to obtain reasonable assurance that the funds were applied on the intended activities. Delays in accounting for expenditures are caused by laxity by Accounting Officers to enforce timely accountability and strengthen controls over those expenditures. This may lead to falsification of accountability documents and loss of government funds.
The Accounting Officers have been advised to enforce strict controls as provided in the Treasury Accounting Instructions such as enforcing the requirements of not advancing more funds before accounting for the previous advances and eventual recovery on failure to account.

The expenditures are detailed in the individual reports and accounts of the entities and are summarized in the following table:-

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Department of Public Prosecutions</td>
<td>41,681,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Kyambogo University</td>
<td>1,360,110,214</td>
<td>253,233,615</td>
<td>26,410,467</td>
</tr>
<tr>
<td>3 Ministry of Local Government</td>
<td>11,553,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Mbarara University</td>
<td>37,523,091</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 East African Affairs</td>
<td>85,960,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Foreign Affairs</td>
<td>83,910,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Parliament</td>
<td>511,492,500</td>
<td>1,481,903,043</td>
<td></td>
</tr>
<tr>
<td>8 Judiciary</td>
<td>222,850,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Uganda Prisons</td>
<td>50,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Parliamentary Commission</td>
<td>511,492,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Gender, Labour and Social Development</td>
<td>65,150,237</td>
<td>1,239,250,000</td>
<td></td>
</tr>
<tr>
<td>12 Makerere University</td>
<td>3,038,468,966</td>
<td>5,707,391,033</td>
<td></td>
</tr>
<tr>
<td>13 Office of the Prime Minister</td>
<td>3,666,518,965</td>
<td>577,702,366</td>
<td>126,307,000</td>
</tr>
<tr>
<td>14 Works</td>
<td>445,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Health</td>
<td>427,714,818</td>
<td>555,765,894</td>
<td>107,169,133</td>
</tr>
<tr>
<td>16 Education and Sports</td>
<td>524,304,000</td>
<td>5,118,564,210</td>
<td>1,745,541,996</td>
</tr>
<tr>
<td>17 Ministry of Agriculture</td>
<td>322,941,310</td>
<td>24,486,000</td>
<td>20,040,798</td>
</tr>
<tr>
<td>18 Public Service</td>
<td>60,914,470</td>
<td>236,193,970</td>
<td></td>
</tr>
<tr>
<td>19 Police</td>
<td>143,150,000</td>
<td>773,653,358</td>
<td></td>
</tr>
<tr>
<td>20 Water and Environment</td>
<td>509,990,977</td>
<td>124,321,260</td>
<td></td>
</tr>
<tr>
<td>21 Juba</td>
<td>$6,073.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 Uganda High Commission, Nairobi</td>
<td>$4,960</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 Makerere University Institutional Support</td>
<td>$21,690</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 Busitema University</td>
<td>60,270,866</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Name</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------</td>
<td>----------</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Education Commission</td>
<td>44,740,000</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Ministry of Finance</td>
<td>3,890,716,488</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Gulu University</td>
<td>1,239,250,000</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Uganda Management Institute</td>
<td>123,699,001</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Mbale regional referral hospital</td>
<td>82,325,945</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Arua regional hospital</td>
<td>15,854,543</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Gulu referral hospital</td>
<td>134,164,532</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Moroto referral hospital</td>
<td>7,551,000</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Soroti referral hospital</td>
<td>8,656,700</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Electoral Commission</td>
<td>2,106,382,683</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Ethics and Integrity</td>
<td>42,054,703</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Uganda Human Rights Commission</td>
<td>579,234,062</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Rome Mission</td>
<td>Euros 7,640.54</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTALS</td>
<td>12,120,726,148</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>US$ 32,723.14</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Euros 7,640.54</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>7,185,209,718</td>
<td></td>
</tr>
</tbody>
</table>

**NB:**  **Advances** refer to funds paid out to staff to undertake approved activities.

**Unsupported expenditure** refers to funds expended on approved activities but with the related supporting documents not provided/attached to payment vouchers.

### 3.4 LOSSES

During the year under review, losses relating to cash and stores reported by various Ministries, Departments, Agencies and Institutions increased by 25.8 percent from Shs.1,396,427,945 reported as at 30th June 2009, to Shs.1,757,089,477 as of 30th June 2010, thereby increasing by Shs.360,661,532. The bulk of the reported losses relate to loss of cash and stolen motor vehicles. These losses should be investigated to their conclusion and properly dealt with in accordance with Public finance and Accounting Act, 2003 and the attendant regulations.


<table>
<thead>
<tr>
<th>Ministry/Agency</th>
<th>Losses of public moneys (cash and cash equivalents) Shs.</th>
<th>Values of losses of stores Shs.</th>
<th>Total losses reported as at 30th June 2010 Shs.</th>
<th>Total losses reported at 30th June 2009 Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Defence</td>
<td>91,729,495</td>
<td>-</td>
<td>91,729,495</td>
<td>91,729,405</td>
</tr>
<tr>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>-</td>
<td>9,581,500</td>
<td>9,581,500</td>
<td>9,581,500</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>-</td>
<td>84,970,000</td>
<td>84,790,000</td>
<td>44,850,000</td>
</tr>
<tr>
<td>Ministry of Works, Housing and Communications</td>
<td>571,007,200</td>
<td>361,765,900</td>
<td>932,773,100</td>
<td>624,321,749</td>
</tr>
<tr>
<td>Ministry of Gender, Labour and Social Development</td>
<td>-</td>
<td>75,000,000</td>
<td>75,000,000</td>
<td>75,000,000</td>
</tr>
<tr>
<td>Ministry of Water &amp; Environment</td>
<td>78,000,000</td>
<td></td>
<td>78,000,000</td>
<td>78,000,000</td>
</tr>
<tr>
<td>Uganda Human Rights Commission</td>
<td></td>
<td>58,589,135</td>
<td>58,589,135</td>
<td>58,589,135</td>
</tr>
<tr>
<td>National Agricultural Research Organisation</td>
<td>126,811,100</td>
<td>66,377,455</td>
<td>193,188,555</td>
<td>183,976,555</td>
</tr>
<tr>
<td>Uganda Police</td>
<td>175,765,960</td>
<td></td>
<td>175,765,960</td>
<td>175,765,960</td>
</tr>
<tr>
<td>Judicial Service Commission</td>
<td>-</td>
<td>4,050,000</td>
<td>4,050,000</td>
<td>4,050,000</td>
</tr>
<tr>
<td>Butabika Hospital</td>
<td>-</td>
<td>8,035,416</td>
<td>8,035,416</td>
<td>8,035,416</td>
</tr>
<tr>
<td>Uganda High Commission in India</td>
<td>290,134</td>
<td>-</td>
<td>290,134</td>
<td>290,134</td>
</tr>
<tr>
<td>Uganda High Commission in South Africa</td>
<td>41,179,551</td>
<td>-</td>
<td>41,179,551</td>
<td>41,179,551</td>
</tr>
<tr>
<td>Uganda Embassy in Switzerland</td>
<td>1,058,540</td>
<td>-</td>
<td>1,058,540</td>
<td>1,058,540</td>
</tr>
<tr>
<td>Uganda Embassy in Germany</td>
<td>3,058,091</td>
<td>-</td>
<td>3,058,091</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>1,757,089,477</strong></td>
<td><strong>1,396,427,945</strong></td>
</tr>
</tbody>
</table>

3.5 **DOMESTIC ARREARS**

To address the problem of escalation of domestic arrears, the practice of budgeting for settlement of domestic arrears was stopped during the financial year 2009/10. Although the policy led to improvements in the control over arrears, challenges in implementation were noted as highlighted below:

- Before the adoption of the new policy, a number of entities had huge amounts of arrears which have remained unpaid because the budget ceilings and resources available to entities could not clear the arrears. In the financial year under review, outstanding operating commitments totalled Shs.176,452,334,312 as shown in the table below. This figure represents 3.2
percent of the Ministries, Agencies, Referral Hospitals and Embassies total approved budget.

- Entities which used to have their contributions to international organizations paid through the budget line for domestic arrears have had their arrears to international organizations rising as they no longer have funds to clear them. This was evident with the Ministries of Gender and Agriculture.

- Many entities deliberately chose not to disclose in the financial statements at the year end. For example, Ministry of Defence had utility arrears of Shs.11 billion which were not disclosed in the financial statements because the IFMS could not allow their capture due to lack of budgetary funds for their commitment on the system. This has the effect of understatement of the GOU arrears position.

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Outstanding Operating Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the President</td>
<td>109,199,877</td>
</tr>
<tr>
<td>State House</td>
<td>67,983,340</td>
</tr>
<tr>
<td>Ministry of Defence</td>
<td>16,946,702,224</td>
</tr>
<tr>
<td>Ministry of Public Service</td>
<td>12,467,499</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>12,512,571,627</td>
</tr>
<tr>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>96,961,386,074</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>10,527,762,421</td>
</tr>
<tr>
<td>Ministry of Local Government</td>
<td>184,041,626</td>
</tr>
<tr>
<td>Ministry of Lands, Housing and Urban Development</td>
<td>265,047,400</td>
</tr>
<tr>
<td>Ministry of Education and Sports</td>
<td>151,555,877</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>39,284,591</td>
</tr>
<tr>
<td>Ministry of Tourism, Trade and Industry</td>
<td>1,562,273,465</td>
</tr>
<tr>
<td>Ministry of Works, and Transport</td>
<td>291,741,212</td>
</tr>
<tr>
<td>Ministry of Energy and Minerals</td>
<td>124,491,160</td>
</tr>
<tr>
<td>Ministry of Gender, Labour and Social Development</td>
<td>1,046,174,939</td>
</tr>
<tr>
<td>Ministry of Communication &amp; ICT</td>
<td>99,853,344</td>
</tr>
<tr>
<td>Ministry of East African Affairs</td>
<td>5,763,254</td>
</tr>
<tr>
<td>Electoral Commission</td>
<td>360,694,431</td>
</tr>
<tr>
<td>Uganda Aids Commission</td>
<td>142,834,796</td>
</tr>
<tr>
<td>Uganda National Roads Authority</td>
<td>22,157,190,445</td>
</tr>
<tr>
<td>Uganda Cancer Institute</td>
<td>127,388,600</td>
</tr>
<tr>
<td>Uganda Tourism board</td>
<td>160,264,635</td>
</tr>
<tr>
<td>Accountant General Office</td>
<td>1,520,884,631</td>
</tr>
<tr>
<td>Health Service Commission</td>
<td>520,800</td>
</tr>
<tr>
<td>National Agricultural Research Organisation</td>
<td>1,295,328,914</td>
</tr>
</tbody>
</table>
As earlier recommended, arrears incurred before the cut off date should be centralized and serviced by Treasury.

Entities should be provided with adequate resources to enable them meet their obligations to international organizations.

Full disclosure of the arrears at the end of the year should be enforced in accordance with the Accounting Policy.

### 3.6 MISCHARGE OF EXPENDITURE

Treasury Accounting Instructions require that all expenditure should be charged to its rightful expenditure codes in accordance with the Appropriation Act. However, it was observed that mischarge of expenditure and diversion of funds
was becoming rampant in many entities. Entities tend to charge expenditure on any budget line project/programme that has funds available funds in disregard of the budgetary control procedures.

There appears to be increasing laxity over enforcement of established budgetary control procedures by the Treasury and MDA’s. This causes budget distortions.

I have advised that the IFMS system budget control procedures at the MDA’s and Treasury should be strictly enforced and monitored.

3.7 **PROCUREMENT**

3.7.1 **Procurement planning**

Regulation 96 of the Public Procurement and Disposal of Public Assets Regulations requires user departments to prepare multi annual rolling workplans for procurement based on the approved budget, which are supposed to be submitted to the Procurement and Disposal Unit (PDU) to facilitate orderly execution of annual procurement activities.

Although this matter was pointed out in my previous report, a number of entities continued to operate without approved procurement plans during the year under review, while others had plans that were not comprehensive. This was noted at Uganda Heart Institute, Mulago Hospital, Uganda Cancer Institute and all Missions abroad.

Such weaknesses in procurement planning ultimately lead to procurement delays and unjustified use of inappropriate procurement methods that do not guarantee value for money. I have again advised the Accounting Officers to strengthen their procurement planning systems in order to ensure an effective and efficient procurement function.
3.7.2 **Contract management**

Regulation 259 (1) of the Public Procurement and Disposal of Public Assets Regulations requires user departments to nominate a member of staff with appropriate skills and experience to be a contract manager on any contract procured by the entity. The Contract manager would be charged with the responsibility of managing and supervising the contract and ensuring compliance with the regulations, including keeping proper records relating to the performance of the contract.

It was however, noted that despite pointing out this matter in my previous report, several entities did not appoint contract managers for some of the key procurements undertaken. This practice affects the performance monitoring of contracts and often results into delays in completion of the contracts. This was observed in the Ministry of Water and Environment and Parliamentary Commission.

I advised the Accounting Officers to adhere with the procurement law and have contract managers appointed for all contracts awarded.

3.7.3 **Record keeping**

Regulations 90 and 91 of the Public Procurement and Disposal of Public Assets Regulations requires user departments to maintain specified records, documenting every procurement undertaken from initiation to conclusion. This is meant to ensure that an audit trail is properly kept to evidence the actions taken during all the procurement stages. It was noted that a number of entities did not properly maintain their procurement records contrary to the above regulations. Failure to maintain proper procurement records increases the risk of perpetuating fraudulent activities because of loss of audit trail. This was observed at Kyambogo University and most Missions abroad.

The Accounting Officers attributed this anomaly to the caliber of staff in the PDUs.
I advised the entities to strengthen the capacity of the personnel in the PDUs so as to ensure proper record keeping of all procurements in accordance with the requirements of the law.

3.7.4 **Procurement of Drugs and Medical Sundries**
The Ministry of Health introduced a policy of centralizing purchases of drugs and medical sundries across the country. Under this policy, funds for procurement of drugs and medical sundries by all government hospitals and health units are budgeted for by the various entities and the funds are transferred to National Medical Stores, which then undertakes the procurement process and distributes them to the respective hospitals and health units across the country. It was envisaged that undertaking bulk purchases by the NMS would ultimately lead to savings. However, it was noted that several hospitals and agencies reported challenges in their dealings with the NMS. These challenges include the following:-

- **Cost of drugs**
Some of the prices charged by NMS were higher than open market prices, and therefore negating the essence of undertaking centralized purchases

- **Quality of drugs delivered**
Sometimes poor quality drugs are delivered by NMS, while in other instances, wrong specifications of drugs are delivered. This was noted especially for specialized drugs for Cancer related ailments.

- **Partial/Selective Delivery and Erratic Supply of Drugs & sundries**
It was noted that NMS usually supplies less than the orders placed. This leads to stock outs of drugs.
• **Delayed Supplies & Stock Out of Drugs**
Several types of drugs appeared on the list of drugs which were mostly out of stock at the NMS, and yet NMS was always reluctant to issue certificates of Non availability of drugs to enable these entities procure from other sources.

• **Reconciliation between NMS and the entities**
It was noted that there was lack of reconciliation between funds disbursed to NMS and deliveries made to the various entities. There is a risk that the entities may receive drugs not commensurate with the funds disbursed to NMS. The government through Ministry of Health, should address these shortcomings to ensure that the policy on supply of drugs and medical sundries by NMS achieves the expected benefits.

3.8 **BOARD OF SURVEY**
Section 84(1) of the Public Finance and Accountability Regulations, 2003 requires the Accountant General to appoint a Board of Survey for each Ministry, Department and Agencies (MDAs) of the Government to survey the cash, bank balances, stores and non-current assets held by the Accounting Officers at the end of the financial year. In accordance with the law, the Accountant General appointed teams at the close of the financial year to survey all cash, bank balances, stores and non-current assets held by Accounting Officers.

The consolidated report of the Board of Survey issued by the Accountant General for the period under review highlighted a number of weaknesses that were recommended for further attention such as: lack of cooperation from some accounting officers; inadequate and unsuitable storage facilities characterized by congestion, poor ventilation and leaking storerooms; poor stores record keeping, laxity in maintenance of asset registers; unusable non-current assets; maintenance of unnecessary bank accounts and untimely disposal of scrap assets including hazardous expired medical drugs.
The details are indicated below:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Prime Minister</td>
<td>• Items for board off had not been boarded off.</td>
</tr>
<tr>
<td></td>
<td>• FAM database although running had many missing gaps.</td>
</tr>
<tr>
<td>Ministry of Education and Sports</td>
<td>• Most fixed assets were not engraved with management codes.</td>
</tr>
<tr>
<td></td>
<td>• Asset register was incomplete.</td>
</tr>
<tr>
<td>Ministry of Gender, Labour and Social Development</td>
<td>• Some store-rooms had leaking roofs.</td>
</tr>
<tr>
<td></td>
<td>• Obsolete items were being kept with good items.</td>
</tr>
<tr>
<td></td>
<td>• There was insufficient lighting in the store-rooms.</td>
</tr>
<tr>
<td></td>
<td>• Poor maintenance of machines in homes.</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>• Assets for board off were occupying a lot of space.</td>
</tr>
<tr>
<td>Ministry of Water and Environment</td>
<td>• Some of the stores were too small.</td>
</tr>
<tr>
<td></td>
<td>• Chemicals that expired in 1995 were still being kept.</td>
</tr>
<tr>
<td></td>
<td>• Items with special storage conditions were being stored in containers at Headquarters.</td>
</tr>
<tr>
<td></td>
<td>• Items listed for board off were still being kept by the Ministry</td>
</tr>
<tr>
<td>Electro Commission</td>
<td>• Limited space in most stores.</td>
</tr>
<tr>
<td></td>
<td>• Poor ventilation in stores.</td>
</tr>
<tr>
<td></td>
<td>• Poor arrangement of items in stores.</td>
</tr>
<tr>
<td>Law Development Centre</td>
<td>• Inadequate storage space.</td>
</tr>
<tr>
<td></td>
<td>• Boarding off items were being kept in the open</td>
</tr>
<tr>
<td>Busitema University</td>
<td>• Items from Nagongera, Arapai, and Namasagali colleges had not been captured in the Fixed Assets Management database.</td>
</tr>
<tr>
<td>Uganda Heart Institute</td>
<td>• Limited space in stores.</td>
</tr>
<tr>
<td></td>
<td>• Poor ventilation.</td>
</tr>
<tr>
<td>Makerere University</td>
<td>• Project assets were not disclosed in the University fixed asset register.</td>
</tr>
<tr>
<td>Uganda Police</td>
<td><strong>Food stores:</strong></td>
</tr>
<tr>
<td></td>
<td>• Poor ventilation</td>
</tr>
<tr>
<td></td>
<td>• Dirty environment</td>
</tr>
<tr>
<td></td>
<td><strong>Estate office stores:</strong></td>
</tr>
<tr>
<td></td>
<td>• Broken pellets</td>
</tr>
<tr>
<td></td>
<td>• Insufficient lighting</td>
</tr>
<tr>
<td></td>
<td>• Inadequate stores</td>
</tr>
<tr>
<td></td>
<td>• Lack of fire extinguishers</td>
</tr>
<tr>
<td></td>
<td><strong>Uniform stores:</strong></td>
</tr>
<tr>
<td></td>
<td>• Insufficient lighting</td>
</tr>
<tr>
<td></td>
<td>• Missing pellets</td>
</tr>
<tr>
<td></td>
<td>• Shelves not labeled</td>
</tr>
<tr>
<td></td>
<td><strong>ICT stores:</strong></td>
</tr>
<tr>
<td></td>
<td>• Obsolete items in store</td>
</tr>
<tr>
<td></td>
<td>• Mechanical workshop</td>
</tr>
<tr>
<td>Location</td>
<td>Issues</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Uganda Prisons</td>
<td>Littered with accident vehicles</td>
</tr>
<tr>
<td></td>
<td>New cars/motorcycles parked in open space without shade</td>
</tr>
<tr>
<td></td>
<td>Open to flooding</td>
</tr>
<tr>
<td></td>
<td>Leaking stores like main store and upper drug store in Murchison Bay hospital.</td>
</tr>
<tr>
<td></td>
<td>Sewing machines kept in stores but not being used.</td>
</tr>
<tr>
<td></td>
<td>Non-functional items in theatre stores.</td>
</tr>
<tr>
<td></td>
<td>Obsolete machinery in printer stores.</td>
</tr>
<tr>
<td></td>
<td>Theatre store was disorganized with items not arranged.</td>
</tr>
<tr>
<td>National Agricultural Advisory Services (NAADS)</td>
<td>Inadequate stores.</td>
</tr>
<tr>
<td></td>
<td>Items recommended for board off were still in stores.</td>
</tr>
<tr>
<td></td>
<td>Facilities and Assets management database had not been updated.</td>
</tr>
<tr>
<td>Uganda National Bureau of Standards (UNBS)</td>
<td>Store was inadequate and lacked ventilation.</td>
</tr>
<tr>
<td></td>
<td>Items in store were scattered on the floor.</td>
</tr>
<tr>
<td>Uganda Land Commission</td>
<td>Asset register was not up-dated</td>
</tr>
<tr>
<td>Butabika Hospital</td>
<td>The hospital had many bank accounts.</td>
</tr>
<tr>
<td></td>
<td>The stores list was incomplete, the list of expired drugs was not attached.</td>
</tr>
<tr>
<td>Fortportal Hospital</td>
<td>Store lacked space to accommodate all the drugs hence some were piled on the floor.</td>
</tr>
<tr>
<td></td>
<td>The fridge in the store was not enough for all the drugs, hence some were going bad.</td>
</tr>
<tr>
<td></td>
<td>The store lacked fire extinguishers.</td>
</tr>
<tr>
<td></td>
<td>Drugs were being kept on the floor.</td>
</tr>
<tr>
<td></td>
<td>The food store had poor ventilation.</td>
</tr>
<tr>
<td>Mbarara Hospital</td>
<td>Stores were poorly ventilated.</td>
</tr>
<tr>
<td></td>
<td>Drugs were not labeled.</td>
</tr>
<tr>
<td></td>
<td>Inadequate storage space.</td>
</tr>
<tr>
<td></td>
<td>Expired drugs were being kept with ones that had not expired.</td>
</tr>
<tr>
<td></td>
<td>Assets were not engraved.</td>
</tr>
<tr>
<td></td>
<td>Disposal assets were scattered in open space.</td>
</tr>
<tr>
<td></td>
<td>Asset database could not be accessed because the computer had a technical problem.</td>
</tr>
<tr>
<td>Moroto Hospital</td>
<td>There were private properties left on the Embassy premises, some had stayed for decades.</td>
</tr>
<tr>
<td>Uganda Embassy in China</td>
<td>Items recommended for board off in previous board of survey had not been boarded off.</td>
</tr>
<tr>
<td></td>
<td>Most utensils had faded and needed urgent replacement.</td>
</tr>
<tr>
<td>Uganda Embassy in Japan</td>
<td></td>
</tr>
</tbody>
</table>
Uganda Embassy in Germany
Boarded off items in the basement had not been disposed off.

The report also pointed out the existence of large quantities of expired drugs in ten out of fifteen hospitals and five other Votes, despite the fact that there have been persistent complaints of lack of drugs in Government Health Centers.

In addition, the report indicated that various entities had not submitted board of survey reports by 30th November, 2010. These included: Ministry of Defence, Ministry of Foreign Affairs, Ministry of Works and Transport, Uganda Industrial Research Institute, Directorate of Ethics and integrity, Uganda High Commission in Egypt, Uganda Embassy in Belgium and Uganda embassy in Italy.

Accounting Officers have been advised to implement the recommendations in accordance with the Public Finance and Accountability Act 2003. Management of these institutions is also advised to improve on the process of procurement and distribution of drugs. Expired drugs should also be destroyed as soon as possible.

3.9 TERTIARY INSTITUTIONS

The University and Other Tertiary Institutions Act requires all tertiary institutions to prepare annual financial statements and have them audited by the Auditor General. An inspection of these institutions revealed that a number of them did not prepare financial statements. As pointed out in my previous report, the Ministry of Education again attributed this to capacity gaps in staffing and accounting skills.

It was observed that despite my recommendation last year, no standardized financial reporting guidelines have been developed by the Accountant General and the Ministry of Education and Sports, to guide the Institutions. Lack of standardization makes review and comparison of performance difficult.

Although the Accountant General had indicated that a consultant had been engaged by the Ministry of Education and Sports to develop the guidelines
together with templates and training materials during the previous audit, no such
guidelines were available for use by the institutions during the year under
review.

I have advised the Accountant General to expedite the process of developing the
guidelines, to enhance financial management and reporting in tertiary
Institutions.

3.10 IMPLEMENTATION OF DONOR FUNDED PROJECTS

During the year under review, I also carried out audit of donor funded projects
that were being implemented by several ministries and agencies. I issued
separate audit reports on the project financial statements as stipulated in the
funding agreements signed between the Government of Uganda and the
Development Partners. The following general observations were noted:-

3.10.1 Counterpart funding

It was noted that, although GoU committed to providing counterpart funding
towards implementation of some projects, this was not always forthcoming.
Several projects experienced shortfalls in counterpart funding while others
registered delays in receipt of the counterpart funds. In other instances, the
counterpart funding provided by the Ministry of Finance was utilised by the line
ministries on non project related activities.

This contravened the funding agreements and led to failure to implement
planned project activities on time. Additionally, this can lead to suspension of
disbursements by the donors. This was observed in the Vegetable and
Development Project and National Livestock Improvement Project under Ministry
of Agriculture.

3.10.2 Rate of delivery of outputs

I also reviewed the rate at which the projects were fulfilling their planned
outputs as stated in their workplans. It was noted that several projects were
experiencing implementation delays that may ultimately affect their ability to accomplish all project activities during the project lifespan. Several projects failed to implement planned activities, despite availability of funding for such activities (i.e. had a low absorption capacity for funds). This ultimately led to failure to deliver the intended services within the planned project duration.

I explained to the Accounting officers, that since some of the funding (especially from multilateral agencies) attracts costs in form of loan commitment fees and interest, failure to utilise the provided funds increases the cost to Government of such funds, as the donor agencies will continue applying such costs until the whole loan/credit is exhausted.

3.10.3 Monitoring and Evaluation
As pointed out in my previous report, most projects provide for monitoring and evaluation of activities to ensure that Project implementation progresses according to plan. During the year under review, it was noted that some projects lacked proper monitoring and evaluation measures, which would have acted as early warning systems to identify risks and challenges that could impede attainment of project objectives.

I advised the accounting officers to streamline their monitoring and evaluation mechanisms, so as to ensure early identification of deviations from plans.

3.10.4 Accounting systems
Several projects were utilizing computerized accounting packages to record their financial transactions. However, it was noted that these packages are not compatible with the Integrated Financial Management System (IFMS) of Government. This implies that the systems cannot share data in instances where it is necessary.

Maintaining such systems is not only costly but also complicates the reporting process.
I advised the Accounting Officers to liaise with the Accountant General to explore ways of fast tracking the adoption of the project module being piloted in some of the ministries.

3.11 **SUBMISSION OF FINANCIAL STATEMENTS**

Section 31 (a) of the Public Finance and Accountability Act, 2003 and Section 64 (2) of the University and other Tertiary Institutions Act 2001 require the Accounting Officers to prepare and submit financial statements for their entities to the Office of the Auditor General for audit within three months after the year end of the financial year (by 30th September of each year).

A total of 17 entities representing 17% of the audit population, delayed to submit the financial statements within the prescribed period as detailed below:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Date of Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gender, Labour &amp; and Social Development</td>
<td>1st October 2010</td>
</tr>
<tr>
<td>2. Uganda Cancer Institute</td>
<td>11th November 2010</td>
</tr>
<tr>
<td>3. Uganda Heart Institute</td>
<td>11th November 2010</td>
</tr>
<tr>
<td>4. Public Service Commission</td>
<td>7th October 2010</td>
</tr>
<tr>
<td>5. Gulu University</td>
<td>18th October 2010</td>
</tr>
<tr>
<td>6. Busitema University</td>
<td>30th November 2010</td>
</tr>
<tr>
<td>7. Tehran</td>
<td>4th October 2010</td>
</tr>
<tr>
<td>8. New Delhi</td>
<td>4th October 2010</td>
</tr>
<tr>
<td>9. Paris</td>
<td>4th October 2010</td>
</tr>
<tr>
<td>10. Beijing</td>
<td>7th October 2010</td>
</tr>
<tr>
<td>11. Bujumbura</td>
<td>11th October 2010</td>
</tr>
<tr>
<td>12. Copenhagen</td>
<td>19th October 2010</td>
</tr>
<tr>
<td>13. Abuja</td>
<td>19th October 2010</td>
</tr>
<tr>
<td>14. Ottawa</td>
<td>22nd October 2010</td>
</tr>
<tr>
<td>15. Tokyo</td>
<td>3rd November 2010</td>
</tr>
<tr>
<td>16. Kinshasha</td>
<td>17th November 2010</td>
</tr>
<tr>
<td>17. Geneva</td>
<td>9th February 2011</td>
</tr>
</tbody>
</table>
It was noted that 11 of the above entities were Missions abroad. Failure to submit financial statements on time leads to delays in the audit process hence impacting on the accountability process.

I advised the Accounting Officers concerned to ensure adherence with the requirements of the Public Finance and Accountability Act.
4.0 OFFICE OF THE PRESIDENT

4.1 Remittances to Uganda Revenue Authority
The Income Tax Act requires taxes deducted at source from service providers to be remitted to Uganda Revenue Authority by the 15th day of the month following the month in which the tax is deducted. Examination of records however revealed that statutory deductions amounting to Shs.537,000,000 paid to the Authority were not supported with acknowledgements to confirm receipt of funds.

I have advised the Accounting Officer to make a follow up and ensure that the acknowledgement receipts are obtained from the Authority.

4.2 Domestic Arrears
At the beginning of the financial year under review the Office of the President had outstanding arrears amounting to Shs.22,662,824,904 and during the year under review the office incurred additional arrears of Shs.2,984,583,295. However, only Shs.7,900,000,000 of the previous arrears of Shs.22.6 billion was paid during the year leaving an outstanding balance of Shs.17,747,408,199 as at 30th June 2010.

There is minimal progress being made in clearing those domestic arrears and this exposes the Ministry and government in general to the risk of litigation and incurring nugatory expenditure in form of accrued interest on the outstanding amounts.

I have advised the Accounting Officer to ensure that resources are secured to clear these commitments.

4.3 Staffing Position
A review of the staffing position of the Office of the President revealed that 297 posts were vacant while 13 were in excess of the establishment. Staffing gaps impact negatively on service delivery.
Management explained that most of the vacant posts were for secretarial and support staff in the offices of Resident District Commissioners (RDCs) and Deputy RDCs and that the recruitment process to fill the posts was in progress.

4.4 National Leadership Institute (NALI) Kyankwanzi

During the financial year 2009/10, Parliament appropriated an amount of Shs.1,000,000,000 for the National Leadership Institute, Kyankwanzi. The funds were released as a subvention to rehabilitate the dilapidated infrastructure of the Institute.

However, a review of records relating to the institute and a physical inspection revealed the following matters;

- The existence of NALI has not yet been regularized by way of enactment of the enabling legislation.
- Neither the Office of the President nor NALI owns the land where the institute is located as neither has a land title.
- Three Government entities (Office of the President, Ministry of Defense and Ministry of Works) were involved in the activities of the Institute in providing, human resource and financial resources for the construction of internal roads respectively. There was no Memorandum of Understanding between the three entities and NALI spelling out their relationship and responsibilities.
- The boundaries of the land occupied by the Institute and measuring about 20 square miles have never been opened and secured to prevent it from the potential encroachers.

The Accounting Officer explained that Cabinet agreed to place NALI under Office of the President given its central role in inculcating values of patriotism and nationalism in the population. Accordingly, a Cabinet Committee was constituted to convey the Cabinet decision to H.E the President who, under the Constitution Article 171 is vested with powers to establish offices in the Public Service. She
also indicated that the process of regularizing ownership of the land on which the premises are located was underway.

I have advised her to expedite the process of regularizing the legal existence of the Institute and ownership of the land.

4.5 **Smart Partnership Dialogue Event**

A local firm was contracted to supply number plates for the Smart Partnership Dialogue event at a cost of Shs.11,138,400. However, audit verifications revealed that only number plates worth Shs.10,395,840 were supplied leaving a balance of shs.742,560 recoverable from the supplier.

The Accounting Officer has been advised to pursue the recovery of the amount from the company.

Management explained that the recovery had been communicated to the supplier and a response was being awaited.

5.0 **STATE HOUSE**

5.1 **Cash and Cash Equivalents**

The balance for cash and cash equivalents reflected as Shs.341,686,531 in the statement of Financial Position includes Shs.307,906,542 relating to the financial year 2008/2009, that had not been transferred to the Consolidated Fund Account as required under section 19 of the Public Finance and Accountability Act, 2003. Non-transfer of such balances to the UCF renders the funds idle while on the other hand a number of activities are not implemented due to lack of funds.

Records also showed that there were other idle funds of Shs.1,997,431 and US$ 180 on a dormant bank account belonging to Banana Initiative Project. The funds continued to be reflected under State House, yet the Project was transferred to other government departments. Management explained that the
Banana Initiative Account is dormant because the project ended, and is currently under other Government departments, and that the Accountant General had been requested to close the bank account. However, it is not clear why to-date the accounts have not been closed.

I advised the Accounting Officer to liaise with the Accountant General's Office to ensure that the funds are transferred to the UCF.

5.2 **Mischarged Rent Payment**

In the budget estimates of 2009/2010, a provision of Shs.644,000,000 was made under item 223003 to cater for rental of properties used by State House for accommodation for a number of State House employees and guests.

It was however noted that a payment of Shs.40,000,000 to a landlord was wrongly charged on the donations item. This was irregular and misrepresents the reported balance under the donation item. The proper procedure should have been to request for a reallocation of the amount from the donations item to the rent item.

I advised management to desist from mischarging of expenditure in future.

5.3 **Regularization of Staff Appointments**

It was also noted that a number of employees in the categories of drivers, gardeners, cleaners and office attendants had appointments that had not been regularized by the Public Service Commission. I was therefore unable to establish the terms under which the affected employees were engaged by State House.

Although management explained that the matter had been submitted to Ministry of Public Service, no further details regarding the status of these employees were available by the time of writing my report in March 2011.
The Accounting Officer should follow up the matter with the Ministry and have the affected staff appointments regularized.

5.4 **Procurement Planning**

The PPDA Regulations 2003 provide for user departments to make work plans, which should be consolidated to form the entity procurement plan. It was noted that State House had a work plan for 2009/10 based on the approved budget. However, some procurements, such as procurement of farm inputs for Poverty Alleviation Project, made during the financial year were outside this plan and hence funds had to be reallocated to cater for such procurements. It was also observed that the procurement plans are not adjusted to take care of new procurements that arise during the course of the year. This may cause distortion in the implementation of the budget and the planned activities.

I have advised the Accounting officer to ensure that all procurements are properly planned as required under the procurement laws.

5.5 **Procurement of Motor Vehicles**

State House procured 25 vehicles for the presidential convoy. The vehicles were estimated to cost Shs.3.2 billion and were grouped into 10 procurement lots. Invitations to bid for the supply of the above lots were sent to five firms.

A waiver was obtained from PPDA for use of Restricted Domestic Bidding Method, with the bidding period of 10 days on the basis of the information presented to PPDA that the entity's supplementary funding had just been approved by Parliament and the procurement had to be completed by June 2010. Secondly the short listed providers had in the past provided similar vehicles that had satisfactorily performed and that some of the vehicles had to be fitted with specialized equipment.

After the evaluation, three firms were recommended for the various lots as follows:-
<table>
<thead>
<tr>
<th>Name of firm</th>
<th>Lots awarded</th>
<th>Amount (Shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota Uganda Ltd</td>
<td>1,3,7 and 10</td>
<td>1,018,384,335</td>
</tr>
<tr>
<td>Victoria Motor Ltd</td>
<td>2,5,6,8,9 and 11</td>
<td>2,574,616,380</td>
</tr>
<tr>
<td>Kampala Motors Ltd</td>
<td>4</td>
<td>US $ 106,400</td>
</tr>
</tbody>
</table>

It was however noted that although PPDA regulations 249 and 252 prohibit payment of advances to suppliers and contractors without security guarantees, advance payments were made to Toyota Uganda Ltd and Victoria Motor Ltd to the tune of Shs.812,693,650 (79%) and Shs.1,097,491,403 (42%) respectively. This amounts to pre-funding of the suppliers and also puts public funds at risk of loss in case of non supply or supply of inferior goods.

Management explained that the funds for procurement of the vehicles were released before the closure of the financial year and their request to carry forward the funds to the financial year 2010/2011 was rejected. Accordingly, the favourable option to them was to deposit the money with the suppliers after signing acknowledgement deeds.

I have advised management that though the vehicles were all eventually delivered and no money was lost they should always plan for such procurements and obtain funding well in advance to avoid end of year rush which may cause financial loss to government.

5.6 **Nugatory Expenditure**

A Memorandum of Understanding was signed between the Government of Uganda and the Bank of Uganda for the financing of the procurement of the Presidential Jet. According to the MoU a 2% charge was to be charged on any delayed payments. As reported in my last audit report, the debt repayments were being handled by State House using the approved budgetary provisions that are subject to MTEF ceilings. As a result, Government defaulted on the payments. Included in the payment for arrears of Shs.4,645,548,180 is interest charged for the delayed payments of Shs.154,987,180. This payment for interest
is nugatory as it could have been avoided if proper arrangements for the debt repayments had been made.

Management explained that the interest payment arose because State House had no control over release of funds to cater for settlement of the loan obligations. As a result the loan repayment obligations have been passed over to the Ministry of Finance for proper management under the Accountant General.

6.0 OFFICE OF THE PRIME MINISTER

6.1 Outstanding Advances
According to the PFAA Act, 2003, advances are supposed to be accounted for within the financial year to which they relate. During the year under review, a total of Shs.618,787,366 was advanced to staff for carrying out official activities while Shs.41,085,000 was advanced to the Coordinator for Karamoja Integrated Disarmament Development Programme (KIDDP) for ploughing for the vulnerable women in Abim, Labwor and Kotido Districts. However, by the time of writing this report (March 201) accountability documents had not been filed for verification.

In absence of accountability documents, I could not confirm that the funds were utilized on the intended activities.

I have advised management to institute measures to ensure that accountability of funds is done promptly. In addition, amounts not accounted for within the prescribed time period should be recovered from activity implementers.

6.2 Fixed Asset Management
It was noted that although the office maintained a fixed asset register, the asset unique identification codes in the Fixed Assets Register (FAR) were not matching with the ones engraved on the physical assets. Some assets had completely different codes while others had not yet been assigned codes. The register did
not provide for the serial numbers which are considered to be key identifiers of an asset. The FAR was noted to be incomplete and was not being reviewed by a responsible officer regularly contrary to TAI.

Management explained that they were in the process of up-dating the FAR and engraving all their assets.

I advised management to always ensure that all assets are engraved and the FAR up-dated regularly.

6.3 **Utilities**

During the year under review, a total of Shs.487,941,483 was paid to NWSC (Shs.384,678,223) and UMEME (Shs.103,263,261) in settlement of water and electricity bills respectively. The payments were being made upfront on quarterly basis. It was however noted that Postel building where the Office of the Prime Minister is accommodated has one meter for water and one meter for electricity although the building is occupied by various other tenants from both Government and private sector. I was not able to establish the basis used by the companies to arrive at the amounts payable.

Management explained that Posta Uganda was in the process of addressing the problem.

I advised management to liaise with the landlord to have separate meters installed for the OPM.

6.4 **Cash Management: Authority to Withdraw Cash**

It was noted that Treasury had authorized a cash limit of Shs.100,000,000 at the beginning of the financial year, which limit was later revised to Shs.300,000,000 per withdrawal in the last quarter of 2009/10. However, the Treasury Authority for the cash limit was not specific as to whether the withdrawal limit was on daily, weekly or monthly basis. With this ambiguity, there is a risk of the
authority being abused, rendering the control envisaged in the cash management process ineffective.

I advised the Accounting Officer to liaise with Treasury to have the frequency of cash withdrawal clearly stated and to desist from the practice of transacting in excessive cash.

6.5 **Disbursement to Rural Electrification Agency (REA)**

The Office through the Peace, Recovery and Development Plan (PRDP) has over a time been disbursing funds to the Rural Electrification Agency for extension of electricity to various districts and key growth centers in the PRDP region. At the time of audit, Rural Electrification Agency had received a total of Shs.4,210,913,700 meant for extension of electricity in Districts and key growth centres in the PRDP region. For the period under review, Shs.300,000,000 was paid to Rural Electrification Agency for extension works. However, it was observed that there was no Memorandum of Understanding (MOU) between the OPM and the Electrification Agency to govern their relationship and accountability arrangements.

Without a MOU, it becomes difficult to establish and enforce obligations of either party.

I advised management to appoint a responsible officer to supervise or follow up on the activities implemented by the Agency and also to have a MOU signed with the Agency.

6.6 **Second Northern Uganda Social Action Fund Project (NUSAF 2) (IDA Credit No.4626 - UG)**

6.6.1 **Manual Accounting System**

The project inherited the sun system accounting software from the implementation of the first phase of the NUSAF project. It was however noted that the system had not been operational since March 2010. A manual
accounting system (excel spread sheets) was being used to record all its accounting ledger books. This renders accounting including the preparation of financial statements difficult and prone to errors.

Management should ensure that the software is put to use to ease the accounting and reporting functions.

Management explained that they were in the process of procuring a much more robust accounting software.

6.6.2 **Fixed Asset Register**

The Project was not maintaining a fixed asset register to record all the details of the assets it owns. This is contrary to the section 7.4.15, of the financial management hand book which provides for recording of fixed assets and yearly stock taking of fixed assets. Failure to maintain the fixed asset register complicates the process of tracking of the project’s fixed assets.

Management should ensure that a fixed asset register is put in place and that half yearly stock takes are made in line with the requirements of the financial management hand book.

6.6.3 **Delayed Implementation of Key Project Activities**

The financing agreement was signed between the Government of Uganda and the International Development Association in September 2009 and the project was declared effective in November 2009 for a five year term to 2014. It was however noted that the first batch of the funds amounting to US$. 15,000,000 was received in February 2010, four months to the end of the financial year.

The implementation of the planned activities for the year under review, was thus delayed. Most affected were the key activities under the livelihood investment support component and the community infrastructure rehabilitation component as detailed below:-
<table>
<thead>
<tr>
<th>Task/ activity</th>
<th>Objectives</th>
<th>Expected out puts</th>
<th>Time frame</th>
</tr>
</thead>
</table>
| Reviewing & funding subprojects submitted to OPM | To ensure that the sub projects are funded to meet the stipulated Project guidelines. | ♦ HISP subprojects reviewed (1,447)  
♦ PWP subprojects reviewed (178)  
♦ Subprojects justification/review reports  
♦ Disbursement schedules prepared for approval  
♦ HISP Subprojects funded (1,447)  
♦ PWP subprojects funded (178) | Jan-Jun 2010 |
| Review and appraise 180 subproject requests for approval and funding by OPM | Ensure correctness of BOQs and confirm actual requirements  
Ensure funding for promoting functionality of infrastructure outputs | Accurate and complete schedule of quantities for all subproject requests  
Functional infrastructure in all completed subprojects | March 2010 |

Delays in the implementation of the planned activities can lead to failure to attain all the project objectives within the specified project duration.

Management should ensure that all planned project activities are always implemented according to the approved work plan.

6.6.4 **Delayed Accountability for Funds**

During the period under review, a total of Shs.1.76 billion was advanced to forty implementing districts to kick start activities for the project. Out of this amount, a total of Shs.126,307,000 had not been accounted for by the time of audit in December 2010.
Delays in submission of accountability can lead to falsification of documents and a possible loss of funds. In absence of the relevant supporting documentation i could not confirm that the amounts were applied for the intended purposes.

Management should ensure that the accountabilities in question are obtained and submitted for audit verification.

6.6.5 **Procurement of Hotel Services**
During the period under review, the project procured hotel services worth Shs.62,649,740 for the launch of the activities of the project. However, there was no evidence to show that the shopping procedures under section 3.5 of the World Bank procurement guidelines were followed. Failure to follow the procedures may have denied the project the opportunity of sourcing the services at competitive rates.

Project management should ensure adherence to the set regulations in all future procurement transactions.

6.6.6 **Staff Emoluments Revision**
The project recruited staff for the technical support team in August 2009, on a two year contract period with a probationary period of 6 months. It was noted that upon the completion of the probationary period, management reviewed the staff emoluments and subsequently new contracts were signed in June 2010 with an effective date of 1\textsuperscript{st} December 2010. The earlier contracts had not provided for such reviews of the staff pay. The authority for the mid contract review of the project staff emoluments was not availed. In addition, there is no evidence to show that a no objection was sought from the bank in relation to the salary revisions.

This can lead to suspension of the project by the IDA.

Management should ensure that the revisions are regularized.
7.0 **PUBLIC SERVICE**

7.1 **Unspent balance brought forward.**
A review of the statement of changes in equity revealed that the cash and cash equivalents brought forward from the previous year of Shs.581,131,383 after adjustment of an over statement of Shs. 300,000 was not transferred to Uganda Consolidated Fund contrary to the Accountant General’s Standing Instruction which requires Accounting Officers to transfer the unspent balance to UCF at every year end.

I advised management to liaise with the Accountant General’s Office to ensure that the balance is transferred to the Consolidated Fund.

7.2 **Absorption Capacity of the Project Funds**
At the beginning of the financial year under review, the Ministry had a balance of unapplied funds on three project accounts amounting to Shs.15,753,613,776. An additional Shs.19,214,490,927 was requisitioned and disbursed making Shs.34,968,104,703 available for spending. However, the Ministry was able to absorb only Shs.8,709,851,603 leaving a balance of Shs.26,258,253,100 unspent. With such a low level of funds absorption capacity, the Ministry might not have achieved its planned output as set out in the policy statement.

Management explained that these were funds already committed. A number of contracts had already been signed and payments were to be effected on completion of certain deliverables, while in others, the procurement process had just been initiated awaiting conclusion.
I advised management to ensure that Government programmes for which funds are disbursed are implemented according to plan to avoid wasteful expenses in form of commitment fees and interest charged on funds lying on project accounts unutilized.
7.3 **Vacant Posts**

A review of the Ministry’s structure revealed that key positions in the departments of Planning, Research and Management Services are still vacant. I was not provided with justifiable reasons as to why the Ministry had not filled these key positions. The details are as below:

<table>
<thead>
<tr>
<th>Department</th>
<th>Vacant Post</th>
<th>No. of posts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning Division</td>
<td>Principal Policy Analyst</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Senior Economist</td>
<td>1</td>
</tr>
<tr>
<td>Management Services Department</td>
<td>Principal Management Analyst</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Assistant Commissioner Current Records</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Assistant Commissioner Public Service</td>
<td>1</td>
</tr>
</tbody>
</table>

The existence of staffing gaps in key positions implies that management does not accord importance to the positions in question. I advised management to liaise with Public Service Commission and have the positions filled.

The Accounting Officer explained that the posts have been declared to the Public Service Commission (PSC). However, I was not provided with evidence to support the assertion.

7.4 **Rent Payments**

The ministry is responsible for payment of rent for H.E the former President of Uganda and H.E the Vice President. By end of the third quarter, a total of Shs.91,343,980 had been paid out to the landlords. Although the payments were supported by tenancy agreements, the Chief Government Valuer’s reports and acknowledgement receipts from the landlord were not availed for verification.
Without the Chief Government Valuer’s report the rates applied may not be relied upon.

I advised management to obtain the Chief Government Valuer’s reports for all properties rented as required by government regulations. In addition, acknowledgement receipts should be obtained from the recipient landlords.

7.5 **Assets Due for Boarding Off**

The Ministry has a number of assets which are due for disposal but have remained in the Ministry’s store unattended to. The process of disposing them off has not yet started. Keeping assets due for disposal, wastes valuable space which could be utilized for other purposes. It also results into their further deterioration in value.

I advised management to expedite the process of boarding off the items. Assets due for boarding off should be kept separate from usable stores to avoid possible contamination.

Management explained that the disposal process for the boarding off exercise is on going and will be completed before the end of June 2011.

7.6 **Public Service Reform Programme**

7.6.1 **Delay in Accountability of advances**

It was noted that there were delays in accounting for funds advanced by the project. For example, the Secretary Office of the President delayed to account for the advances amounting to Shs.232,914,470.

One staff had also not accounted for Shs.3,279,500 by the time of audit. Delays in accounting for advances can lead to falsification of documents and loss of public funds.
I have advised management to ensure that all expenditure is properly accounted for promptly to avoid incidences of misuse of funds and to also set a time limit within which accountabilities should be made by the recipient.

7.6.2 Ineligible Expenditure under the Uganda Public Service Performance Enhancement Programme II (UPSPEP II)

It was noted that the PSRP received a grant of US $ 1,363,890.76 towards UPSPEP II to;

(i) improve and make its public service delivery affordable, efficient, accountable and effective in use of public resources

(ii) improve the policy institutional and regulatory environment of its public service delivery, institutions for sustainable economic growth.

According to the project financing agreement, there was no allocation for operating costs and therefore an expenditure on operating costs would be referred to as "ineligible expense," and this would be refunded to the designated account (UPSPEP II ACCOUNT).

It was noted that in the quarter ending December 2009, US $ 11,754.55 had been considered as ineligible expenses but by the time of the audit, this amount had not yet been refunded to the designated account.

Failure to refund the amount in question to the designated account can lead to suspension of disbursements by the donor.

I advised management to avoid incurring ineligible expenses and ensure that the funds in question are refunded to the designated account.
8.0 FOREIGN AFFAIRS

8.1 Overdrawn Account

The general ledger reconciliation report shows that, although the Treasury General Ledger cash account had a balance of Shs.388,048,964 at the end of the year, the bank account (TGA) at BOU was overdrawn by Shs.163,106,424.

Management attributed the overdraft to the funds transferred from the Treasury General account amounting to Shs.556,186,526 to close a CHOGM bank account that had been overdrawn in the financial year 2007/08. The financial statements were not adjusted to reflect the overdrawn position.

Overdrafts should in future be settled through appropriations made by Parliament.

8.2 Travel Abroad – Expenditure Mischarged to Other Expenditure Codes

It was noted that although only Shs.364,000,000 was allocated for travel abroad, a review of expenditure revealed that Shs.1,117,242,401 was spent in respect of night allowances, air tickets, transit allowances and warm clothing allowances to officers while on foreign travels hence exceeding the expenditure budget line by Shs.653,242,401. This over expenditure was erroneously charged on other expenditure budget items contrary to the Appropriation Act. This accounting treatment renders the financial statements misleading.

I advised management to refrain from charging wrong expenditure items.

8.3 Loss of Land

In 1983, the Department of Lands and Surveys allocated a piece of land to Kagera Basin Organisation (KBO) for setting up KBO regional offices in Uganda. When KBO was dissolved by the member states in 2004, the piece of land in Mbarara being part of KBO assets and liabilities in liquidation was given to Uganda Government and vested under the Ministry of Foreign Affairs. At the time of dissolution, KBO was still constructing its regional offices on this land.
An audit inspection carried out in October 2010, revealed that the land had since been resurveyed and subdivided into 3 plots, one of which had been developed into a petrol station by a private developer.

The Accounting Officer explained that in line with the Cabinet retreat recommendation of December 2010 he had contested the decision by the District Land Board (DLB) and had written to the Uganda Land Commission to cancel the title for the piece of land erroneously allocated. He also stated that the matter had been referred to the Solicitor General for possible court action. The outcome of this effort is awaited.

8.4 **Remittances to Missions**
A sum of Shs.157,824,800 was remitted to the Permanent Mission of Uganda to the United Nations (Shs.35,232,845) and Uganda High Commission in Nairobi (Shs.122,591,955) to cover expenses of a government official’s campaign for the post of Executive Director (Under Secretary) of a United Nations organisation. However the accountability documents provided for the funds spent were not adequate as they were all photocopies.

In absence of the original accountability documentation, I could not confirm that the funds were adequately utilized for the intended purpose.

8.5 **Planned Activities not Undertaken**
Some of the activities planned to be undertaken as per the Ministerial Policy Statement were not undertaken. This implies that the funds meant for these activities may have been diverted to finance other activities. The activities include;

• Connecting the Ministry headquarters on Voice over Internet Protocol (VoIP).

• Computerization of the Ministry’s records.

It was also noted that the VPN and VoIP projects were incorporated in the Ministerial Policy Statement without carrying out cost benefit analysis of the projects. This can lead to implementation of costly projects which may not be sustainable in future.

Management was advised to always ensure that planned activities for which funding has been provided are undertaken. In addition, new projects should be undertaken based on cost/benefit considerations.

8.6 Insufficient Funds for Motor Vehicle Maintenance

According to management thirty BMW protocol cars bought for CHOGM were transferred to the Ministry of Foreign Affairs although they were registered under Ministry of Works and Transport. However, for the year under review, there was no budget provision for maintenance of these vehicles. In my previous report, I pointed out that the structures erected by a contractor for providing shades for these cars were not serving their intended purposes, a position which has not changed to date. For example;

• The ends of the vehicles (boots and bonnets) are exposed to sunshine and rain due to short eaves of the shades.

• Part of the floor on which the cars are packed is muddy whenever it rains.

• The space between the canopies was not sealed with gutters to prevent rain water from dropping onto the cars.

Audit inspection revealed that the situation has worsened since last year as most of the vehicles were covered by mud and dust and would soon be discolored. Management explained that the protocol fleet budget had been under-funded and to address the problem with effect from financial year 2011/12 the activity would be budgeted for under Ministry of Works and Transport.
8.7 **Contract Staff**

It was noted that 59 members of staff, mostly Heads of Missions abroad were serving on contract terms. However, contracts for 14 Heads of Missions had expired and had not been renewed. This implies that they were irregularly occupying public offices. It was also observed that the Ministry employs six temporary staffs who have been at the Ministry for several years. However, management could not provide their appointment letters and satisfactory explanation as to why they were employed on temporary terms for this long.

Management explained that a submission for renewal of the contracts for the Head of Missions had been made and the action of the appointing authority was awaited.

They also explained that they had submitted a request to Ministry of Public Service to have essential services staff appointed on contract pending restructuring when these services would be incorporated in the Ministry structure.

I advised the Accounting Officer to expedite the process.

8.8 **Unserviceable Stores**

In line with the TAI 3 Part II – Public Stores, the Accountant General in his Board of Survey report for the financial year ending 30th June 2009 recommended boarding off of three motor vehicles registration No.UG 0003X Nissan Patrol (1998), UG 0037X Hyundai (2002) and UG 0038X Hyundai 2002 that had been grounded. However, by end of year under review, the process of disposal had not been concluded.

Delayed disposal greatly impacts on the disposal proceeds as the items to be disposed deteriorate further in value.

I advised management to expedite the disposal process.
8.9 **Staff Recruitment, Training and Development**
Chapter 1 Para 2 of the Uganda Government Standing Orders requires that staff development be planned, carried out and reviewed in accordance with the Ministerial Master Career Plan and training programmes based on training needs assessment approved by a selected training committee/council of the Ministry. However, it was observed that there was no properly developed and approved training plan for the Ministry.

It was also noted that the Ministry did not have a scheme of service which specified the minimum qualifications of entrants at various entry points and criteria for promotions among other things.

In absence of the scheme of service and training plan, the Ministry could employ personnel without the relevant minimum qualification requirements, which may lead to poor service delivery.

The Accounting Officer explained that the ministry had developed a draft scheme of service and human resource development policy which had been submitted to Ministry of Public Service for approval.

8.10 **Foreign Service Officer on Abscondment**
The staff list indicated that one officer was on study leave. However, according to management representations this member of staff who had been deployed at the Uganda High Commission in Pretoria absconded from duty when she refused to return to Kampala on recall at the end of her tour of duty. Documentation on her personal file further indicated that the officer had never been granted study leave. The staff list was therefore misleading.

I advised the Accounting Officer to investigate the matter and recover the money fraudulently paid to the officer.
9.0 JUSTICE AND CONSTITUTIONAL AFFAIRS

9.1 Cash and Cash Equivalent

The financial statements show a cash balance of Shs.278,276,619 on the TGA account. However, the General Ledger reconciliation detail report has unreconciled payments to the tune of Shs.230,000,000 which have not been resolved. Under the current Government payment procedures, such payments are not expected to be outstanding by the end of the financial year.

Meanwhile a total of Shs.112,707,210 out of the outstanding balances relating to the previous financial years was not transferred to the Consolidated Fund.

I advised the Accounting Officer to investigate further the outstanding items in the reconciliation and also have the balances transferred to the UCF.

9.2 Domestic Arrears

According to the financial statements, the Ministry had outstanding commitments amounting to Shs.114,577,576,352 at year end. This includes Shs.96,961,386,074 incurred during the year contrary to the government commitment control system which requires Accounting Officers not to commit Government before confirmation of funding.

I advised the Accounting Officer to operate within the approved budget to avoid accumulation of arrears.

9.3 Unused Items in Stores

It was noted that the stores have so many unused items like printers, computers, telephone sets which have not been boarded off and continue to lose their salvage value with time. Disposal of obsolete/unused assets could help free up the much needed space and reduce congestion in the stores and above all realize some revenue from the disposal of the items mentioned.
The Accounting Officer explained that he has requested the PS/ST to appoint the board of survey team to kick-start the process.

I advised the Accounting Officer to follow the matter with PS/ST to ensure that the boarding off process is carried out without further delay.

9.4 **Compensation and Court Awards**

A sample of 45 files relating to compensation and court awards was selected and reviewed during the year. The purpose of the review was to assess the adequacy of the procedures for verification and settlement of court awards and compensation claims.

The review revealed various shortcomings in the management of cases/claims brought against government. Here below, I highlight my audit findings on some specific case files and the other general weaknesses observed during the review.

9.4.1 **Munderi Paula (Dr) Vs Attorney General – HCCS 704 of 2003**

A review of case file reference HCCS 704 of 2003, Munderi Paula (Dr) Vs Attorney General revealed that on July 21st 1989 under Statutory Instrument 24 the Minister of Lands compulsorily acquired Plot 775 Block 244 but did not compensate the rightful owners. The Complainant sued government on 1st December 2003 claiming compensation of Shs.250,000,000 as valued by a private Valuer as per the report dated 25th August 2003. On the 8th of April 2009 judgment was passed in favor of the plaintiff and awarded Shs.700,000,000 with interest of 1 per cent per annum from 11th November 2003 until full and final payment is made.

Payments available on file indicate that a total of Shs.1,466,307,789 was paid during the year under review in full settlement of the claim. This resulted into a nugatory expenditure of Shs.1,216,307,789 from the initial valued amount of Shs.250 million.
This expenditure could have been avoided if timely action had been made to settle the initial claim of Shs.250 million.

I have recommended that the responsible government officials account for the loss.

9.4.2 **Musa Kalokola versus Attorney General - Case file No.100/10K**

This was a Claim for compensation for 218 acres of Land donated by the government to the Islamic University of Uganda. It was established that in 1990, the government donated 218 acres of Land occupied by 168 customary Land owners at Nkoma in Mbale to the Islamic University, Mbale. The first assessment for compensation done by the Ministry of Lands in 1996 was Shs.425,051,080. In 2004, the value of the land was re-assessed and put at Shs.1,115,269,028. A Letter on File dated 5th November 2008 referenced 100/10K from the Solicitor General to the Permanent Secretary; Ministry of Lands indicates that the Ministry of Justice received Shs.690,217,948 to compensate 168 Customary Land owners. However there is no evidence of payment on file. In absence of the acknowledgement receipts, it is difficult to ascertain that the claimant received the money.

The delay to settle the claim in effect led to an extra claim of Shs.690,217,948 that would have been avoided if payment had been made in time.

I have recommended that all claimants should be paid promptly to avoid further litigation and attendant costs.

The Ministry of Justice and Constitutional Affairs should also ensure that payments in installments to the claimants or their advocate are acknowledged.
9.4.3 **Basangira John Baptist versus Attorney General Civil Suit Number 177/2005**

This relates to a claim for payment of a court award arising out of civil suit number 177/2005 in which Basangira sued the Attorney General in the chief Magistrates court of Mengo for special and general damages as a result of the wrongful arrest by police at parliament on 16th December 1998, detention at central police station in Kampala and subsequently malicious prosecution at Buganda Road Chief Magistrates Court vide criminal case number CRU3810/1998 wherein he was charged with obtaining money by false pretences. There after the criminal case was dismissed on 14th June 2001 for want of prosecution but later reinstated in May 2002 and consequently withdrawn by the Director of Public Prosecutions on 30th June 2003. This led to a claim of Shs.43,625,400.

The following matters were observed:-

- Upon perusal of the loose minute dated 10th March 2010, we noted that most hearings were not attended by the representative of the Attorney General due to non receipt of instructions on how to defend the suit in time. Information on file indicates that the solicitor General requested the DPP on the 25th January 2009 for information regarding the nature of charges, the re-arraignment of Basangira and the withdrawal of criminal case CRU3810/1998 to enable the Attorney Generals’ chambers to prepare a defence. A reminder was sent on 22nd October 2009. However, the DPP’s response together with the Police file was sent to the Solicitor General on 6th November 2009 (nine months after the initial request), this was after the suit had been disposed of by the court on 24th September 2009.

- As a result, the evidence of the claimant in court was heard in the absence of the state attorney thus the claimant’s evidence was not challenged by the defence, which amounts to an admission of the evidence of the opposite party; hence an appeal by the Attorney General in this matter could not succeed.
I have recommended that the concerned government institutions send instructions and necessary documents in time, to enable the Attorney General prepare timely defences in suits against the government.

9.4.4 **Nyanja Aminsi versus Attorney General - HCC 575/1998**

A claim for a court award arising from civil suit number 575/1998 filed by the claimant against the Attorney General in the High Court at Kampala seeking damages for the wrongful death of Nsubuga Muhamad who was on the 16th July 1997 shot by a policeman then attached to Kayunga Police station at Naggalama trading centre. The claim was for Shs.87,360,000 which has since been paid.

The following matters were observed:

- The police failed to respond to the Attorney General in a timely manner. The Solicitor General wrote to the Inspector General of police on 11th February 1998 requesting for detailed information about the claim and the police file, another letter in regard to the same was sent on 5th August 1998. A second reminder was sent on 14th June 2004; the police eventually replied on 4th October 2004, forwarding the case file on the matter (five and a half years after the initial request)

- There was no judgment on the file at the time of audit

I have recommended that the concerned government institutions should always send instructions and necessary documents in time, to enable the Attorney General prepare timely defences in suits against the government. I have also recommended that a certified copy of the judgment should always be obtained and filed.

9.4.5 **Ogwal David versus Attorney General - MG 79/2003**

A claim for a court award arising out of a civil suit filed in the high court at Gulu by the claimant (as administrator of the estate of the late John Edward Ejura) against the Attorney General seeking various reliefs. On 2nd February 1984
officials from the Ministry of Education unlawfully took over Aboke High School and the land on which it is located (measuring approximately 45.6 hectares comprised in leasehold register volume 1700 folio 17 at Aboke Sub County, Kole County in Apac district) without compensating Ejura Edward who was the registered proprietor at the time. Details of the award were as follows:-

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount in Shs.</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Value of land and buildings</td>
<td>385,000,000</td>
<td>6%</td>
</tr>
<tr>
<td>2. Disturbance allowance</td>
<td>57,750,000</td>
<td>6%</td>
</tr>
<tr>
<td>3. General damages</td>
<td>82,000,000</td>
<td>Court rate</td>
</tr>
<tr>
<td>4. Rent value</td>
<td>6,760,800</td>
<td>6%</td>
</tr>
<tr>
<td>5. Annual Ground rent per month</td>
<td>450,000</td>
<td>Court rate</td>
</tr>
<tr>
<td>6. Annual Ground rent</td>
<td>3,380,400</td>
<td>Court rate</td>
</tr>
</tbody>
</table>

- Despite several requests for instructions by the Attorney General to the Ministry of Education no instructions were received from the Ministry, notwithstanding a communication to the Solicitor General dated 31st October 2008 stipulating that instructions would be forwarded upon conclusion of investigations into the matter.
- There was a request by the Solicitor General to the Chief Government Valuer for an inspection and valuation report on the suit property but evidence of response could not be traced on file. Records show that the claimant later produced a valuation report from a private valuer in court which was unchallenged due to the absence of a valuation report from the Chief Government Valuer and the claim was honoured.
- Given the lack of instructions from the Ministry of Education, the absence of a Chief Government Valuer’s report and any other competent witnesses for the state, the case was more favorable to the claimant, and therefore an out of court settlement would have been a viable option that the Solicitor General could have considered. However, this option was not explored, despite a loose minute dated 16th March 2009, by the State Attorney handling the matter requesting the Solicitor General to approve that matter.
be amicably settled out of Court. There was no response on file from the Solicitor General.

- Failure by the Ministry of Education to provide instructions, and the Chief Government Valuer to provide a valuation report caused the state to repeatedly ask for adjournments (on 11th September 2008, 29th January 2009 and 12th March 2009), which contributed to the accumulation of costs.
- These failures also prevented the State Attorney from filing written submissions, which in turn caused the judge to solely rely on the submissions of the plaintiff’s Advocate.

I have recommended that in future government institutions should give the Ministry of Justice instructions in time in instances where suits are instituted against government. This case should be investigated to establish whether a loss to government arose or accountability for that loss be brought to bear on the responsible official.

9.5 General Observations

9.5.1 Claims Inadequately Supported

On a sample basis a review of the files revealed that there were instances where some important documents were either photocopies or inadequately supported. There is a risk that the Ministry could pay claims that are not genuine. Below are some of the examples.

<table>
<thead>
<tr>
<th>Case file reference</th>
<th>Missing document</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obero David versus Attorney General MG32/2005</td>
<td>The decree dated 21st July 2008 is a photocopy</td>
</tr>
<tr>
<td>Construction Engineers and Builders Limited versus Attorney General CA 34/94</td>
<td>The Memorandum of Understanding dated 26th of April 1996 between the Attorney General on behalf of the Government as Judgment debtor and Construction Engineers &amp; Builders Limited as judgment creditor stipulating the modes of payment of the decretal amounts awarded by the Supreme Court on the 5th of September 1995 in SCCA No 34/1995 is a photocopy.</td>
</tr>
</tbody>
</table>
The Ministry should ensure that all files contain original documents or certified copies.

The Accounting Officer explained that efforts are being made to obtain certified copies of documents.

9.5.2 **Copies of Judgment /Decree without a Court Seal**

Two court cases had copies of judgment and one had a decree which did not bear a court seal. Such documents may not be authentic and by acting on these documents, the Ministry is exposed to the risk of relying on forged documents and causing financial loss to government. Details are as here under.

<table>
<thead>
<tr>
<th>Case Reference</th>
<th>Details of Judgment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kimera Kalemera Jimmy versus Attorney General CS 79/08</td>
<td>The judgment dated 29\textsuperscript{th} January 2010 does not bear a court seal.</td>
</tr>
<tr>
<td>Ruth Molly O. Lematia versus Attorney General CS 212/2003, CA 469/2008Vol 11</td>
<td>The judgment dated 12\textsuperscript{th} October 2004 does not bear a court seal or a stamp.</td>
</tr>
<tr>
<td>c) Kania Noel &amp; 5Ors versus Attorney General CS 442/2004</td>
<td>The decree dated 23\textsuperscript{rd} of May 2007 does not bear a court seal.</td>
</tr>
</tbody>
</table>

I have advised management to investigate the two cases with the view of establishing their authenticity. In future all the documents that are expected to have an official seal/ stamp should be received after verifying that they bear the seal/stamp.

9.5.3 **Loss of cases due to internal weaknesses**

In some instances, a representative of the Attorney General did not show up for a court hearing, or pleadings were filed late in court; these and other similar practices sometimes caused the state to lose cases that could have been won, or
court costs to increase unnecessarily. Details of such cases together with the corresponding internal weaknesses have been captured below.

<table>
<thead>
<tr>
<th>Case reference</th>
<th>Weakness identified</th>
</tr>
</thead>
</table>
| Amos Twinomujuni versus Attorney General and L.T. James Mwesigye Civil Suit Number 413/2005 | - Original case file was misplaced  
- Attorney General’s representative failed to attend court |
- Inability to reallocate the file to another state attorney while the state attorney handling the matter was travelling out of the country. |
| Andre Fayolle versus Attorney General CAD/ARB/36/2003                          | Delay by the Attorney General’s chambers to file a reply to the claimant’s statement of claim |
| Muhumuza Isaac versus Attorney General UHRC/MBA/241/2003                       | Attorney General’s representative failed to attend court                               |
| Omach Robert UHRC/G/7/2004                                                    | Failure to secure witnesses                                                          |
| Magezi Ali versus Nakitoma sub county, the Attorney General and Kizito Samuel HCCS 902/2005 | Late filing of written statement of defence                                           |
| Kimera Kalemera Jimmy versus Attorney General CS 79/08                        | - Absence of the Attorney General’s representative from court without explanation     |
| Bamanye Fazil versus Attorney General MJ 31/01                                 | - Failure by the Attorney General’s representative to attend court.                   |
| Benon Tumwebaze versus Attorney General & Kampala City Council CS No 1006/1997 | - Attorney General’s representative carried the wrong File causing an adjournment and award of costs |
Management attributed these weaknesses especially non-attendance of court proceedings by State Attorneys to a number of factors. These include absence of service of hearing notice by Court and thus lack of awareness of hearing, insufficient funding for travel to up-country courts. They explained that the Attorney General’s Chambers has a big challenge of high turnover of staff which causes a strain on the few remaining attorneys who are expected to handle cases in all courts. Where negligence on the part of the officer is evident then disciplinary action should be taken.

9.5.4 Failure or delay to give timely instructions to MOJCA by Government Ministries and institutions

When a suit is instituted against the Attorney General, the Attorney General gets into contact with the relevant ministry to get instructions and the facts of the matter. It was however established that relevant institutions either failed or delayed to provide instructions. Evidence on file indicated that several reminders were made in each case but these reminders yielded no response. The Attorney General apparently has no powers to compel the responsible Ministry to act in good time.

As a result, the Ministry of Justice is unable to effectively defend suits against government. In some instances a State Attorney may continuously seek adjournments (hence prolonging the case and accumulating costs), or the plaintiff’s evidence is not challenged, sometimes leading to loss of cases, and making it difficult for the Attorney General to appeal. Below are examples of institutions that failed or delayed to provide instructions to the Attorney General.

<table>
<thead>
<tr>
<th>Case details</th>
<th>Remarks</th>
<th>Amount awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.M.Scrap Metal dealers Ltd versus the Attorney General Civil Suit Number 195/2008</td>
<td>Uganda Police - Failed to provide instructions</td>
<td>Shs.210,000,000</td>
</tr>
<tr>
<td>Case Title</td>
<td>Ministry/Agency</td>
<td>Instructions Provided</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Aminsi Nyanja versus Attorney General</td>
<td>Uganda Police</td>
<td>5½ years later</td>
</tr>
<tr>
<td>High Court Civil Suit Number 575/1998</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basangira John Baptist versus Attorney General CS 177/2005</td>
<td>Director of Public Prosecutions</td>
<td>9 months later</td>
</tr>
<tr>
<td>Attorney General</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongwal David versus Attorney General MG 79/2003</td>
<td>Ministry of Education</td>
<td>No instructions</td>
</tr>
<tr>
<td>No instructions provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omach Robert UHRC/G/7/2004</td>
<td>Ministry of Defence</td>
<td>No instructions</td>
</tr>
<tr>
<td>Jimmy versus Attorney General CS 79/08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Walusimbi Wilberforce and 6367 others versus Attorney General CS 469/2004</td>
<td>Ministry of Defence</td>
<td>1½ years later</td>
</tr>
<tr>
<td>Uganda Police</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mrs Berici Acio Ouni versus Attorney General SDC 420/304</td>
<td>Ministry of Defence</td>
<td>1 year after request</td>
</tr>
<tr>
<td>Sammy versus Attorney General CA08/2006</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Government should devise means to compel ministries and institutions to give timely instructions to MOJCA. In the alternative, payment of compensation and court awards should be decentralized to the government ministries and institutions.
The Accounting Officer explained that obtaining instructions was a big challenge and sometimes led to ineffective representation and unnecessary adjournments, lack of witnesses, bias against state attorneys and dismissal of some cases against government. He however indicated that some improvement had been registered after carrying out sensitization and appointment of desk officers.

9.5.5 **Failure /delay by the Chief Government Valuer to respond to requests by the Attorney Generals Chambers to value claimants properties**

The Chief Government Valuer sometimes does not respond in a timely manner or he does not respond at all to requests from the Attorney General’s chambers to value a claimant’s property.

This practice makes it difficult for the Ministry of Justice to assess the compensation due to the claimant and it also prolongs the case in instances where a valuation report from the Chief Government Valuer is necessary for the progress of the case. In instances where the claimant produces a valuation report in court from an independent valuer, it is unchallenged in the absence of a valuation report from the Chief Government Valuer. Some examples are given below.

<table>
<thead>
<tr>
<th>Case details</th>
<th>Period from the date of initial request</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aleku Joseph SDC 420/3453</td>
<td>Two (2) Years</td>
</tr>
<tr>
<td>Amatho Yusuf Kerlith SDC 420/2663</td>
<td>Seven years</td>
</tr>
<tr>
<td>Ogwal David versus Attorney General MG 79/2003</td>
<td>No response</td>
</tr>
<tr>
<td>Mrs Berici Acio Ouni versus Attorney General SDC 420/304</td>
<td>No response</td>
</tr>
<tr>
<td>Thomas Iyamulemye Katto and two others versus Attorney General 100/08/k</td>
<td>No response</td>
</tr>
<tr>
<td>Bamanye Fazil versus Attorney General MJ 31/01</td>
<td>No response</td>
</tr>
</tbody>
</table>
I have recommended that the Chief Government Valuer should carry out valuations and transmit reports to the Ministry of Justice in a timely manner.

The Accounting Officer indicated that although the response was still not good enough some improvement had been registered.

### 9.5.6 Payments lacking Attorney Generals Approval

It is a rule of practice that payments for compensation and court awards above 200 million should be approved by the Attorney General. However, a review of some of the files revealed that some claims above Shs.200m lacked the required approval as shown by the examples below.

<table>
<thead>
<tr>
<th>Case reference</th>
<th>Value of claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chimanlal Bhailalbhai Patel versus Attorney General and Donati Kananura CS/05/02</td>
<td>Shs.1.342 billion</td>
</tr>
<tr>
<td>B.M.Scrap Metal Dealers Ltd versus Attorney General CS 195/2008</td>
<td>Shs.210 million</td>
</tr>
<tr>
<td>Alwedo Aroma Lillian versus Attorney General CS 367/2007</td>
<td>Shs.377.5 million</td>
</tr>
<tr>
<td>Thomas Iyamulemye Katto and two others versus Attorney General 100/08/k</td>
<td>Shs.750 million</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that because of urgency, some claims beyond 200m were approved by the Accounting Officer in accordance with the authority given to him/her under the Constitution.

I have recommended that the MOJCA should consistently apply the rule of practice.

### 9.5.7 Cases with Interest Accumulating

Review of the case files revealed that court awards that carry interest were not promptly paid leading to escalation of government debt burden. Below are
examples of cases whose interest is accumulating yet there is no evidence on file to show that payments are being effected.

<table>
<thead>
<tr>
<th>Case Details</th>
<th>Court award</th>
<th>Interest accruing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muhumuza Isaac versus Attorney General UHRC/MBA/241/2003</td>
<td>Shs.30,000,000</td>
<td>6%</td>
</tr>
<tr>
<td>Andre Fayolle versus Attorney General CAD/ARB/36/2003</td>
<td>Euros 133088 as cost earnings, Shs.100,000 as general damages for breach of contract. Costs of the arbitration process at court (Shs.63,395,521).</td>
<td>Interest at court rate</td>
</tr>
<tr>
<td>Stanbic Bank Uganda limited versus Attorney General CS 248/2006</td>
<td>Shs.186,024,162</td>
<td>19%</td>
</tr>
<tr>
<td>L.T Ben Kachope and 229 and others versus Attorney General and Uganda Wildlife Authority CS 546/2003</td>
<td>Shs..1,380,000,000</td>
<td>5%</td>
</tr>
<tr>
<td>Sam Semanda versus Attorney General CA 08/2006 - Special damages</td>
<td>Shs.127,420,000</td>
<td>15%</td>
</tr>
<tr>
<td>- General damages</td>
<td>Shs.10,000,000</td>
<td>10%</td>
</tr>
<tr>
<td>Construction Engineers and Builders Limited versus Attorney General CA 34/94</td>
<td>Shs. 5,934,285.44 and 6,194,107.88 Deutsche Marks</td>
<td>12%</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that the funding received on quarterly basis from MOFPED to cater for court awards arrears was grossly inadequate. She observed that the solution to the problem of accumulating interest was for MOFPED to provide adequate budgetary provision to meet all existing and future claims.
10.0 FINANCE, PLANNING & ECONOMIC DEVELOPMENT

10.1 Salary Arrears

10.1.1 Teachers salary arrears

The Ministry had an initial approved budget for salary arrears of Shs.800,000,000. An additional supplementary budget of Shs.3,090,716,488 was approved by parliament resulting into a revised budget of Shs.3,890,716,488. This amount was subsequently released to the Ministry to cater for salary arrears for teachers for the period 1993/94-2008/09.

The following anomalies were noted during inspections carried out at various sampled districts;

a. Bushenyi District

The District CAO presented claims for 163 teachers totaling Shs.163,220,688 which were submitted to Ministry of Public Service during 2009. However confirmation with MoFPED records indicated that the claims considered for payment totaled to Shs.165,407,570 for 255 teachers. I requested for a soft copy of the claimants to identify and reconcile the gaps, which was not provided.

The Chief Administration Officer attributed the anomaly to non reconciliation and lack of feedback from Ministry of Public Service (MoPs) and MoFPED. He was not aware of the beneficiaries especially after the introduction of the EFT system.

Verification undertaken in 2 schools revealed that in one of the schools (Nganwa High School) a teacher by the names Mushabe Godwin absconded in March 2008 but was paid Shs.3,102,536 as salary arrears.

b. Kabarole District

The deputy CAO of the district claimed that they did not have a list of claims for teachers arrears submitted to Ministry of Public Service despite MoFPED paying Shs.135,557,844 to 194 beneficiaries in the district.
An inspection carried out on 2 schools revealed that in one of the schools (Nsuura primary school) Shs.3,026,736 had been paid to Mr. Muhindo Yoweri Bayirebati. However, this teacher was not known to the school at all instead there was a teacher with almost similar names (Muhindo Allen). She denied knowledge of applying and receiving the funds.

In another school, a teacher by the names of Mr. Mujuni Stephen from Rusekere S.S.S was paid Shs.3,129,830. However, on interviewing him, he stated that he merely found money on his account without applying for arrears.

c. **Masindi District**
The district CAO submitted claims for residual arrears totaling Shs.107,414,247 to Ministry of Public Service. However, we noted that Shs.129,703,422 was instead paid by MoFPED causing a variance of Shs.22,289,175. This anomaly was not explained.

d. **Soroti District**
The district CAO presented claims for teachers’ salary arrears amounting to Shs.66,943,913 to the Ministry of Public Service between the period October 2007 and September 2008. On inspection, it was noted that Shs.124,817,707 was paid to bank accounts of 322 beneficiaries of the district. The variance of Shs.57,873,794 was not explained. Two teachers, Mr. Wegulo M. Lewis and Mr. Ololo Graphes both from Soroti PTC were paid Shs.2,121,367 and Shs.1,452,180 respectively. However, we noted that the two names were not among the claims that had been submitted to the Ministry by the district. We could not establish whether the two teachers actually existed.

e. **Mbale District**
The district presented claims for teachers’ salary arrears totaling Shs.85,541,422 to the Ministry of Public Service between the period December 2007 and May
2009. It was noted that Shs.78,034,114 was paid to bank accounts of 80 beneficiaries from the district. The variance was not explained.

The above anomalies indicated that there were still weaknesses in the verification and payment of teacher’s arrears. This may lead to fraudulent payments. There appears to be no mechanism in handling of backlogs as well.

The Accounting Officer explained that MoPS had the overall mandate and mechanism to manage the Government payroll and that she only relied on the submission from the MoPS.

I have advised the Accounting Officer to undertake a detailed investigation to establish the full extent of teachers who could have obtained funds erroneously and effect recoveries accordingly. There is also need for the review and streamlining of the management of salary arrears to mitigate the risk of loss of funds.

10.2 **Recruitment of Agricultural Extension Workers**

The Ministry remitted a total of Shs.565,540,000 from EFT General Transfer Account no.001.276075.1 to seventy two District Collection Accounts to facilitate district service commissions in the recruitment and selection of agricultural extension staff under the NAADs programme.

It was however noted that only 33 districts presented accountability for funds amounting to Shs.258,032,400. The balance of Shs.307,507,600 was yet to be accounted for by the time of audit. It was also noted that in many instances, PAYE was not deducted and accountability was not adequately supported with documentation such as interview registration sheets.

In addition the guidelines given were not elaborate particularly on remuneration and other terms and conditions of employment.
It was noted that in many districts the exercise was not concluded and hence appointment letters were not issued to the would-be recruited staff. Some districts had indicated that the exercise had stopped midway and therefore were willing to refund the unspent balances. Management was yet to follow up on these districts.

The Accounting Officer explained that the funds were advanced in blocks to the various District Service Commissions and therefore, it was the responsibility of the respective districts to make PAYE deductions where applicable. She further explained that it was the responsibility of MOPS to elaborate on the remuneration and other terms and conditions of employment and she had written to the responsible Ministry to take action.

I advised the Accounting officer to ensure that;

- The Chief Administrative Officers of respective districts account for the funds.
- There is a follow up with the districts that did not fully spend the funds in question and ensure that a refund is obtained.
- Proper guidelines should be developed to ensure uniformity in the recruitment of NAADS staff across the districts.

10.3 **Agriculture Credit Guarantees Scheme- Escrow Account**

The scheme was initiated by the Ministry in 2009 after approval by Cabinet and Parliament and assented to by the President on 30th September 2009.

Its major purpose was to boost agricultural productivity and production, to mitigate the impact of the global economic crisis in Uganda as Uganda’s products were increasingly being exported within the region, thereby, impacting on price of agricultural produce and the Consumer Price Index (CPI). The Scheme was to finance projects engaged in agriculture and agro-processing. To implement this scheme, GoU signed a Memorandum of Understanding (MoU) with several finance institutions, and opened an account with BoU No 208.209309.1 (Agriculture Credit Guarantee Scheme – Escrow Account).
GoU was to contribute Shs.30 billion and Participating Financial Institutions (PFIs) were to match the GoU and hence create a revolving loanable fund amounting to Shs.60 billion.

For this purpose, Parliament appropriated a sum of Shs.30,000,000,000 during the year under review, and accordingly Shs.28,505,413,048 was released, leaving a balance of Shs.1,494,586,952.

According to the MoU, the PFIs were required to submit to BoU quarterly reports including loan disbursements, outstanding amounts and provisions, and BoU was to advise the PFIs of their outstanding balance/commitments every month, and PFIs were to equally provide their actual commitments on a monthly basis. Records show that by close of the year, all the funds had been disbursed from the account.

According to the BoU progress report of 30th August, 2010 for the 50 percent GoU contribution, 25 PFIs and one Development Bank had signed agreements. 63 loan applications amounting to Shs.20,761,565,261 had been approved and funds disbursed. Shs.8,939,875,000 had been committed in respect of eligible projects leaving a balance of Shs.298,559,740 uncommitted. Further review of the operations of the scheme revealed the following matters;

- It was noted that the MoU did not clearly indicate whether repayments including interest would be returned to the UCF or would be a revolving fund.
- The beneficiaries were not disclosed in the GoU Consolidated Financial Statements as ‘on lent’ hence understating the Government receivables.
- The BoU progress report also highlighted a number of challenges that had been encountered, including the following:-
➢ The PFIs were supposed to carry out thorough appraisal but some of them were not doing so as a result a number of ineligible projects have been submitted to BoU.

➢ Some PFIs were not disbursing loans to the final borrower within the stipulated timeline contrary to the MoU and the offer letter. This results in delays in the disbursement of the GoU contribution.

➢ Some would-be beneficiaries expressed concern over some PFIs reluctance to support them to access the Agricultural Credit Facility (ACF) and wanting to give them their own funds at their own credit terms.

It is recommended that;

• For projects that require staggered disbursements, PFIs should give the sub-borrower a conditional offer specifying the period within which funds are to be disbursed and then notify BoU.

• The operations of the scheme should be closely monitored by both BOU and the Ministry to ensure that it achieves the intended objectives.

• The MoU should clearly indicate whether repayments including interest should be returned to UCF or will be a revolving fund.

• There should be proper disclosure of the scheme operations in the GOU financial statements.

10.4 **Projects and Agencies**

10.4.1 **Non Performing Assets Recovery Tribunal and Trust (NPART)**

The Non Performing Asset Recovery Trust was established by NPART Act (Cap.95) with the principal objective of holding and recovering the non performing assets which had been transferred to Uganda commercial bank and Uganda Development Bank. The Tribunal was established under Section 13 of the Act with exclusive jurisdiction to hear and determine all matters arising and relating to any non performing asset.
During the year, the Ministry budgeted Shs.450,000,000 for NPART operations. By 30th June 2010 NPART had spent Shs.362,256,844 and a balance of Shs.117,689,982 was still held on the account as shown below:

<table>
<thead>
<tr>
<th></th>
<th>Release (shs)</th>
<th>Expenditure (shs)</th>
<th>Cash balance including b/f of July 2009 (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tribunal</td>
<td>253,918,831</td>
<td>202,621,544</td>
<td>79,076,925</td>
</tr>
<tr>
<td>Trust</td>
<td>193,831,169</td>
<td>159,635,300</td>
<td>38,613,057</td>
</tr>
<tr>
<td>Total</td>
<td>447,750,000</td>
<td>362,256,844</td>
<td>117,689,982</td>
</tr>
</tbody>
</table>

Most of the expenditure were in form of salaries, vehicle maintenance, rent, fuel costs and transfers to URA and NSSF.

As at the time of audit, the tribunal had 126 pending cases at different levels with monetary value of Shs.7,571,788,453. Of these cases, 92 of them worth Shs.4,481,642,965 had not been heard at all. 14 cases worth Shs.2,555,326,839 had not been concluded. Warrants for 20 cases worth Shs.534,818,649 had been issued but not returned. The status of the recoveries could not be established.

In my report to Parliament for the year ended 30th June 2009, I pointed out to management the need to initiate the process of winding up NPART.

During the financial year under review, the NPART submitted to cabinet a paper on the winding up, however cabinet had not resolved the matter by the time of audit in December 2010. For two years, the tribunal had never held any sitting and the Trust seemed to be redundant.

The Accounting Officer explained that all the cases were at various stages of resolutions whose conclusion awaits the passing into law of the Non Performing Assets Recovery Trust (Winding-Up) Bill, 2009. Therefore the recoveries could not be made without the law.
Management was advised to expedite the NPART winding up bill.

10.4.2 Presidential Initiative on Banana Industrial Development (PIBID)
Parliament appropriated Shs.11.2 billion for the financial year 2009/2010 and the Ministry subsequently released Shs.11,197,500,000 to the project to enable it achieve the main goal of supporting Government efforts in kick-starting a Pilot Industry in banana value addition.

A field inspection carried out on 8th November, 2010 at PIBID Bushenyi premises revealed the following:-

(a) Irrigation Water Supply Scheme at Nyaruzinga- Bushenyi
The irrigation water supply scheme project was contracted out to a company on December 12th 2008 at a cost of Shs.1,848,063,421 for a period of five months (to May 2009). The contract provided for construction of irrigation water supply premises as well as supply of equipment, laying water pipes from the irrigation site to PIBID premises and banana demonstration plantations and provision of grid power for pumping water at a distance of four kilometers. The following matters were observed;

(i) Expiry of contract period
Whereas, the construction of the project was to last for only five months (to May 2009) it was noted that (almost 2 years after), the construction had not been completed. This contravened section GCC 17.1 (Special Conditions), of the contract. Government is likely to incur losses through penalties/fines for breach of the contract.

The Accounting Officer explained that PIBID had an agreement with Ministry of Water and Environment (MoWE) to supervise the Contractor for the irrigation water supply scheme. However after procuring the contractor, MoWE did not honor its obligation. PIBID therefore had to procure a consultant to supervise the
works which led to delay in the implementation of the project. She indicated that the Consultant procured and work commenced in October 2009.

I advised management to put in place monitoring mechanism to avoid such delays.

(ii) **Incomplete works**

It was also noted that out of a total contract price of Shs.1,848,063,421, Shs.1,661,880,685 had been paid to the contractor (i.e.90%) leaving only a balance of Shs.186,182,736 to cater for the pending works. We however noted that the pending works involving testing of the transmission main, Grid power for pumping and site external works involved contracted amounts of Shs.462,151,155 far beyond the remaining unpaid amount (Shs.186,182,736) as indicated below:

<table>
<thead>
<tr>
<th>Bill items</th>
<th>Activity</th>
<th>Amount (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>03(3.32)</td>
<td>Testing of transmission main.</td>
<td>10,500,000</td>
</tr>
<tr>
<td>09</td>
<td>Grid Power for Pumping</td>
<td>406,806,155</td>
</tr>
<tr>
<td>10</td>
<td>Site External Works</td>
<td>44,845,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>462,151,155</strong></td>
</tr>
</tbody>
</table>

Our request for the supervisory reports to confirm the quality as per agreed standards was not honored. In absence of the supervisory reports, we could not confirm that works were satisfactorily carried out.

Management was advised to urge the contractor to expedite the completion of the works in question without further delay.

10.4.3 **Capitalization of Phenix Logistics Uganda Ltd**

A special resolution was made at an extra ordinary general meeting held on 25\textsuperscript{th} September 2009 to increase Government share holding in the company from 49
percent to 79 percent (38,213 ordinary shares) and the number of directors representing government from three to five upon the cash injection of Shs.1.5 billion.

It was agreed that the above cash injection would then be utilized to:

- reduce the company overdraft facility with a commercial bank by Shs.597,000,000,
- effect loan repayment to a sister textiles company amounting to Shs.363,000,000,
- purchase raw materials for school uniforms for the coming season in the sum of Shs.415,000,000,
- effect repayment of the working capital loan to a Bank in the sum of Shs.125,000,000,
- in addition to the aforesaid capital injection, the sum of Shs.2,562,994,561 due to government from the company under the Cotton Buffer Stock Fund would also be converted into equity to be allocated to GoU in the form of additional shares in the company.

A consultant was to be appointed to review the company’s entire operations and management system with a view of recommending ways of making the company profitable and the consultant’s fee was to be borne by the GoU.

In line with the resolution, Shs.1.5 billion was paid to the company in addition to other funds released to the company in the earlier years. However, a copy of the share certificate indicating Government increased shareholding was not provided. In addition, acknowledgement of the shs.1.5 billion was also not presented for audit examination.

It was also noted that by the time of audit, a consultant had not been engaged and the Government representatives on the board had not been named. Delays in engaging a consultant to review the operations of the company may lead to further losses as the trend has been since its inception.
In addition although the funds were meant to reduce the overdraft and also pay a long term loan, there was no evidence on file to show that this was achieved.

The Accounting Officer explained that the Board resolution to hire a consultant at the Ministry’s expense is still under review and that following the increase in share holding, the Ministry has agreed with the company to adjust the share certificates accordingly.

I advised the Accounting Officer to ensure that the adjusted share certificate is obtained from the company henceforth. Additionally, since the company was under direct supervision of the ministry, management should ensure that both the consultant and directors are appointed without further delay.

10.5 The Rural Financial Services Programme World Bank - 04510, IFAD LOAN NO.591 – UG

(a) Non compliance to procurement procedure by the Programme at UCSCU

Regulation 145 (c) of the PPDA regulations 2003 require a minimum of fifteen working days for bidders to provide their bidding documents under the restricted domestic bidding method. On the contrary it was noted that procurement of hotel services worth Shs.35,400,000 by UCSCU was done in 2 days. Failure to adhere to the stipulated time could have denied the entity from obtaining the services at competitive prices.

Procurement guidelines should always be followed by those responsible to avoid unnecessary violation of the set principles.

Management explained that they were in the process of procuring service providers under framework contracts arrangement for training venues and all other services that are used in routine field operations.
(b) **Violation of MOU terms between UCSCU and SACCOS**

Support for Audit services is one of the services SACCOs are supposed to receive from UCSCU as per the MOU between UCSCU and SACCOs. The Programme through UCSCU is meant to pay the external audit services of start up SACCO. Furthermore, SACCOs are supposed to appoint the auditors themselves. However during our review, we noted that in Lango Sub region, UCSCU imposed on the SACCOs an audit firm for this service. The appointment of auditors was an anomaly. In future programme should ensure that such anomaly does not occur.

Management explained that the anomaly would be investigated and that the programme would continue to sensitize SACCOs on the issue of external audit support under the programme.

(c) **Poor Programme Asset distribution management strategy**

A review of the support to SACCOs through provision of equipment, revealed that the programme did not carry a proper needs assessment for the distribution of the available kits. For example in some SACCOs visited, we noted a mis match where by Generators had been distributed without computers, and also others given but already had one from other sources. Furthermore, the Generators given out were of high capacity and costly to run. Without proper needs assessment, the attainment of the overall project may not be realized. For efficient and optimal utilisation of resources, there is need to carry out needs assessments so as to avoid duplication or redundancy.

Management explained that at the time of classification, all SACCOs to receive the advanced kit were assessed as capable of maintaining it. However, the lifecycle of some institutions are on a downward trend due to organizational development challenges, which has substantially reduced their ability to maintain this kit. As a result, the programme has introduced a Flexible Kit where SACCOs may not receive some of the kits they were previously meant to receive, based on regular assessments carried out from time to time by the programme.
(d) **Delayed delivery of MOU items with SACCOs impacts negatively on SACCO performance**

The Memorandum of Understanding between the SACCOs and UCSCU provided for the support of start up kit to the existing but weak SACCOs and advanced kits to existing but strong SACCOs. However, sample of SACCOs visited showed that some items had not yet been delivered at the time of audit, two years after the signing of the memorandum of understanding. The delay in delivery of the items by PAU negatively impacts on the performance of SACCOs.

The programme should endeavor to deliver all items in signed MOU with the SACCOs in the agreed time.

Management attributed the delays to inadequate specifications, delayed procurements, and reclassification of SACCOs.

(e) **Inspection of SACCOs**

According to MOFPED ministerial Policy statement for financial year 2009/10, one of the RFSP project objective was to establish and strengthen the financial infrastructure of Savings and Credit Cooperative Societies at the sub-county level.

The project is co-funded by the International Fund for Agriculture Development (IFAD) and GoU. During the period under review, Parliament appropriated Shs.11,829,000,000 and a total of Shs.6,454,800,000 was released to implement project activities. Out of the total amounts released, Shs.2,404,800,000 was retained at RFSP, while Shs.4,050,000,000 was passed over to Uganda Cooperative Saving and Credit Union (UCSCU) Ltd.

Various SACCOS in the country were funded under Rural Financial Services Programme (RFSP) in conjunction with Microfinance Support Centre Ltd (MSCL). Government support was given in form of equipment like furniture, filing
cabinets, safes, bicycles and calculators, salary for three staff, rent for two years and refurbishment (burglar proofing and face lifting of various premises).

Management selected a sample of 144 SACCOs spread throughout the country for inspection and identified teams to carry out inspections. Generally, it was found out that SACCOs were still facing challenges which were hindering their growth, expansion, sustainability and prosperity hence rendering their future doubtful.

A review of the SACCO inspection report issued by the Ministry revealed the following salient issues which required necessary interventions to improve the performance of the programme;

- **SACCOS on the verge of collapsing**
  According to the report, many SACCOs were on the verge of collapsing. For example, Yelle Ateke SACCO in Lira district, where the caretaker attributed their poor performance to lack of effective sensitization of SACCOs prior to their launch. The SACCO originally started with 200 members but membership had shrunk to under 80 people. The Chairperson then was a teacher and had been transferred. At the time of inspection, the share capital stood at only Shs.850,000.

  In Kalusenge Women SACCO in Bundibugyo district, political interference culminated into disagreement among members. The SACCO had closed at the time of inspection due to absence of a chairperson. The SACCO had a mere saving of Shs.73,000. The general education standard of members of the executive committee was too low (reportedly primary six leavers). The Board members had not met for a long time which was unusual.

  In Kabumbu SACCO in Rukungiri district, Government provided funding to the tune of Shs.40 million through MSCL and at the time of inspection, the whole amount had been stolen. The case was in court at the time of writing this report.
Because of the theft, members had withheld their savings and the activities of the SACCO had generally declined.

Management acknowledged that the Agency (UCSCU) to oversee SACCO Development plus the mentoring and follow up of SACCOs was still weak and the task before UCSCU was too enormous for one single body or Agency to execute properly and effectively. To strengthen this area, the Ministry together with BoU was in the process of drafting of the SACCO Laws and regulation.

- **Management of SACCOs**
  The highest organ of a SACCO is the general assembly comprised of all members who elect the board members. The board of directors is made up of seven to nine members and these include a chairperson, Vice chairperson, treasurer, secretary and five or three other members.

  It was observed that most SACCOs had board members who lacked qualifications, sufficient skills and experience required to handle effective SACCO management. This lack of capacity for critical thinking may hamper the smooth running of the SACCOs.

  Management explained that RFSP in collaboration with UCSCU were in the process of building capacity of SACCOs through training, mentoring and financial support.

- **Interest Rates Charged by the SACCOs**
  The Ministry identified the MSCL to be an intermediary through which funds would be channeled to the SACCOs throughout the country. The initial disbursements by MSCL were released at an interest rate of 9 percent per annum for agricultural loans translating into 0.75 percent per month and 13 percent per annum for commercials.
Although the SACCOs were financed at considerably lower rates, it was observed that some SACCOs were charging prohibitive rates as indicated in the table below:

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Rate per month</th>
<th>Equivalent per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moroto SACCO</td>
<td>10%</td>
<td>120%</td>
</tr>
<tr>
<td>Nabisweera SACCO</td>
<td>5%</td>
<td>60%</td>
</tr>
<tr>
<td>Kasulenge SACCO</td>
<td>12%</td>
<td>144%</td>
</tr>
</tbody>
</table>

It should be noted that such high interest rates may scare off prospective borrowers and in many cases increase the default rate. Anything above 2 percent per month is high for the rural population and the urban poor yet these are the target group for the prosperity for all program.

I advised management to consider instituting a cap for the interest to be charged by the participating SACCOs.

- **Internal Controls**
  Many SACCOs have very weak or no controls at all and as such, they cannot adequately safeguard assets and efficiently manage bigger funds. There was no segregation of duties, no job descriptions, poor hierarchy system, poor bookkeeping and accountability. SACCOs with weak internal controls are prone to errors and frauds and therefore stand a high risk of losing resources.

  The possible factors affecting the effective implementation of internal controls include: low staffing levels, inadequate training, qualifications, low supervision by the boards, lack or poor policies and procedures and inadequate facilities.

  Management explained that in order to enhance the internal controls in the SACCO Industry, training was being carried out for SACCO members and Staff. They also indicated that Field officers and/or Financial Extension Workers (FEWs)
had been recruited by the Programme to carryout mentoring of SACCOs to improve their operations.

- **Loan Management and Recovery**

The report indicated that most SACCOs did not present defaulter’s registers for verification and this renders effective loan monitoring difficult. There were no strong policies on management action against defaulters hence a possibility of a high loan loss rate. Below is a sample of selected SACCOs and their loan recovery rates:

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Loan recovery rate</th>
<th>Loan portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nyabani SACCO</td>
<td>20%</td>
<td>15,757,150</td>
</tr>
<tr>
<td>Taala ya mawokota</td>
<td>42.6%</td>
<td>501,911,076</td>
</tr>
<tr>
<td>Banyakyaka development</td>
<td>40%</td>
<td>82,654,750</td>
</tr>
<tr>
<td>Nakisunga SACCO</td>
<td>5.4%</td>
<td>9,458,598</td>
</tr>
<tr>
<td>Kyegegwa SACCO</td>
<td>48%</td>
<td>43,588,530</td>
</tr>
<tr>
<td>Masaka Elders</td>
<td>33%</td>
<td>-</td>
</tr>
<tr>
<td>Akwara SACCO</td>
<td>35%</td>
<td>-</td>
</tr>
</tbody>
</table>

The above case analysis implies that for every shilling lent out, SACCOs are only able to recover a half of it and the lower the recovery rate the higher the portfolio at risk. The recommended loan recovery rate for the industry is 95 percent. Therefore everything below 95 percent is indicative of poor performance in terms of loan recovery.

Management was advised to ensure that the above matters are urgently addressed in order to ensure effective performance of the SACCOs.

10.6 **The Microfinance Support Centre Limited**

- **Disbursement of loans outside the Company credit policies**

The company disbursed a non-interest bearing loan to the Park Yard SACCO of Shs.1 billion contrary to the Micro Finance Support Centre credit granting policies
and procedures which state that only start up loans shall be disbursed interest free and the amount disbursed shall not exceed Shs.10 million.

The disbursement of non-interest loans above approved thresholds could result into significant loss of potential income.

For all loans disbursed, the set loan disbursement policies should be followed and if need be the policies and procedure should be amended to take into account special consideration loans.

Management explained that these were funds received as per presidential pledge to the Park yard traders after the market was gutted by fire. The president pledged an interest free loan to the traders. This has been an exceptional case for special consideration.

(b) **Manual computation of the ageing and the provision for doubtful debts only made annually**

The ageing for the loans and advances is manually prepared using excel spreadsheets despite the recent investment in a new management information system with a loans management system. In addition, the process for assessing allowances for credit losses is done on an annual basis. Preparation of the ageing of the company’s loans and advances using excel spreadsheets increases the risk of inappropriately grading loans and also the likelihood of errors. The annual computation of allowances for credit losses makes it difficult to provide a more objective assessment of the valuation of the loans and advances, as well as enabling management to monitor the collectability of receivables on a proactive basis throughout the year.

Management should ensure that the Loans module is configured to automatically age loans and advances in arrears to ensure accuracy of ageing analysis extracted from the system and also create efficiencies within the operations of the business. The allowances for credit losses should be computed on a periodic
basis e.g. on a quarterly basis as part of the preparation of the quarterly management accounts.

Management explained that the provision for losses will be done on quarterly basis following company policy and impairment review adjustments will be made at the end of the financial year.

(c) **Non adherence to write off policy**
The entity’s write off policy requires that loan amounts outstanding for longer than 365 days should be written off. On the contrary, the company as at 30\(^{th}\) June 2010 had loans outstanding for longer than 365 days of Shs.1.5 billion which had not been written off to date.

This implies that the gross loans being recognized by MSC are not a fair reflection of what is recoverable.

We recommend that the MSC policy on write offs should be adhered to. Management should assess on a periodic basis loan facilities that are due for write off and present them to the Board of Directors for approval.

Management acknowledged this shortcoming in adherence to the policy and explained that there was a delay as management was still crafting a practical approach on handling loans after write-off. They indicated that a management paper on Loans write-off is being reviewed and will be presented to the board in January 2011.

(d) **Weaknesses in the financial statements close process**
The following weaknesses were noted in MSC’s Financial Statements Close Process;

- There were numerous errors in postings in several general ledger accounts such as cash & Bank, receivables, payables, expenditure, investments, investment income and loans and advances.
There were some instances of double postings of loans and advances. For example a facility of Shs.50 million was posted twice as Mutara Development SACCO and Mutara Savings and Credit Society.

It was noted that the loan interest & principal receipts from the zonal offices for the periods July and August 2010 had not yet been posted to the system by September 2010.

The numerous errors are also an indication of the lack of review of duties performed by the different accounting personnel. The misposting of transactions could result into inaccurate financial reporting of the performance of the entity for the period.

Management should ensure that there is adequate segregation of duties within the finance function and that the tasks performed are reviewed by a Senior and independent person. There is also need to enforce strict month end close process.

Management attributed inadequate segregation of duties to the exponential growth of the portfolio over the last two years and understaffing in the finance department.

(e) **Lack of credit concentration policy**

The Microfinance Support Centre Uganda Limited does not have a policy to limit the amount and number of credit facilities it can grant to a single borrower so as to minimize the risks associated with credit concentration.

In absence of a policy, it makes it hard to monitor the credit concentration of the entity’s borrowers and thus increases the risk of credit losses.

Management should implement maximum borrower limits in order to reduce the magnitude of losses in the event that a borrower with multiple facilities fails to discharge their obligations.
Management indicated that they are currently reviewing the policy on loan amount and number of loans facilities with a view of capping them.

(f) **Inadequate follow up of loans in arrears**
From our review of non-performing loan recoveries, we noted that management has not been aggressive and there are many instances of delayed action. Inadequate follow up on loans in arrears results into very high credit losses which would make it hard for the entity to maintain revolving funds and to become self-sustaining.

Management should develop a debt management policy and set up a recovery team dedicated to recovery of amounts outstanding on non performing loans or alternatively outsource the services to a debt collecting agency.

Management explained that a policy is being developed and reviewed and will be taken to the Board for approval and eventual implementation.

(g) **Numerous General Ledger Codes**
It was noted that the entity has various General ledger codes for each particular account balance. The diversity of the General Ledger Codes resulted into errors in posting subsequently resulting into numerous re-classification adjustments which took a long time to reconcile and explain.

This could result into mispostings going undetected and misrepresentation of financial Statements Balances.

The General ledger Codes for each account should be narrowed down to suit financial reporting purposes.

Management explained that the codes were created during the migration from Pastel to Solomon accounts, but there were reviews to enable the capturing of data by activity to enable broader analysis of the activities hence creation of new
account codes and the previous ones could not be inactivated since data had been entered.

(h) **The operations and accounting policies and procedures manual are not updated**

The Microfinance Support Centre operations and accounting, financial policies & procedures manual were last updated in 2009 and 2008 respectively. Some of the policies documented in the manuals are not in line with the entity’s current practices for example the loan products, authorization levels for loans which were subsequently amended. The lack of an updated manual could result into the application of the old policies instead of the new policies because the manual is the main point of reference.

The accounting, financial policies & procedures manual should be updated in line with the current policies as the main point of reference for the operations & application of accounting policies of The Microfinance Support Centre.

(i) **Finance staff not fully conversant with the MS Dynamics**

During our audit we noted that the staff in the finance function was not yet fully conversant with all aspects of the MS Dynamics system and its capabilities. As such there were several errors encountered in the form of mis-postings and delays in correcting these mis-postings. The lack of adequate knowledge of the system could result into errors that could go undetected and also give rise to inefficiencies in transaction processing.

All staff that actively use the system should be given refresher training on how to use the system. This should increase efficiencies within the function and also help to minimize errors in posting and during the financial statement close process.

Management acknowledged the anomaly and indicated that trainings would be undertaken to ensure staffs are conversant with the system.
10.7 **Second Private Sector Competitiveness Project (CR.3975): Technical Audit (Value for Money Audit) of the Construction of the Uganda Investment Authority Office at Namanve**

The Government of Uganda received a credit from the International Development Association (IDA) towards the cost of the Second Private Sector Competitiveness Project (PSCP II). Part of this credit is being used to implement the Kampala Industrial and Business Park (KIBP) at Namanve. A firm was contracted on 4th June 2008 to execute the “Earthworks” contract in the KIBP. As part of the contract, the firm was to construct offices to accommodate the Resident Engineer, Laboratory and the Uganda Investment Authority/KIBP team at the park. During the implementation of the contract, Uganda Investment Authority identified the need to modify the office design. Consequently, the modifications led to an increase in the contract price.

In February 2010, the World Bank/International Development Agency indicated that they were unable to pay for the office block. Following a review of the contract addendum in August 2010, the World Bank raised some queries and comments, which indicate that:

- there may have been an inappropriate change of site by UIA;
- the benefits to the site change do not seem to justify the costs;
- additional areas do not seem to relate to the increase in cost;
- there seems to have been non-compliance with environment framework;
- there was non-compliance with the Credit Agreement, whereby, for example, Uganda Investment Authority did not follow pre-approved procedures.

In view of these concerns, the Permanent Secretary/Secretary to Treasury requested my office to conduct a technical audit (VFM) to ascertain whether there was value for money in the construction of the Uganda Investment Authority office.
The following key findings and recommendations were made, the details of which I have outlined in my separate report which also forms part of this annual report to Parliament:

**Key Findings**

(i) The procurement process for both the consultancy services and the earthworks works contract was completed in line with the World Bank procurement guidelines, covering the entire process. However, the solicitation documents did not provide for the pricing of the KIBP office buildings. As part of the scope of earth works contract, the contractor was to provide offices for UIA staff, the resident engineer and the laboratory for the engineer, under permanent works. However, these were not provided for in the BOQ except for the site offices under preliminaries which are temporary works. Under normal circumstances, if a client intends to retain any of the site offices, this would be indicated in the tender documents and the designs would reflect it accordingly. UIA also did not seek IDA’s clearance for the revised design of the offices as required by the World Bank’s Procurement Guidelines.

Management explained that the variation for construction of the offices amounted to 14% of the original contract while the cumulative variations of the 3 items (office construction, Namanve river and maintenance of offices) account for 18.1% of the original contract price, and therefore did not require seeking a no-objection from IDA.

I have drawn management attention to the Guidelines for Procurement under IBRD loans and IDA credits (Appendix I.3), where it is stipulated that a no objection will be sought for any modification which would in aggregate increase the contract amount by more that 15%. It is my opinion that the three variations increased the contract amount by more than 15%.
(ii) UIA adhered to the environmental laws and regulation relevant to the project implementation. However, the shifting of the UIA office building from the original site to the current site by UIA and their consultants was not adequately analyzed. It would have been worthwhile to look at a number of alternatives and assess their environmental soundness based on a cost-benefit analysis.

Management explained that right from project inception, it was recognized that the UIA offices were to be located at the entrance of the parks, however, owing to several reasons (including shifting of the Kampala-Jina road design by UNRA), it was necessary to shift to the alternative location in the vicinity of the park entrance.

(iii) The design, management and construction of the KIBP offices were not handled professionally by the Consultant, which led to an inadequate design and compromise on quality. The design for the offices did not take into account the issue of consolidation settlement due to the weight of the fill and the buildings. This may have a negative effect on the durability of the structures.

Management explained that the new design put into consideration the consolidation factor. The column pads for the storeyed building are located 1.8m above the bottom of the fill material and not at 5m above the bottom.

With respect to consolidation settlement, I have explained to management that the depth of the foundation does not reduce the problem because the load on the original weak ground is still the same.

(iv) The cost of KIBP offices buildings increased three and a half (3½) times the original estimate (i.e. increased by Shs.1,967,635,121 excluding VAT). This was mainly due to new designs, raising the level of the site
and external works. The amount paid to the contractor so far is Shs.9,741,476,149 i.e. (74% of anticipated Final Account), whilst payment outstanding is Shs.2,938,573,868 excluding VAT i.e. (22% of anticipated Final Account).

Some items in the original contract were not executed 100% and there is no authentic signed document(s) indicating the agreed scope and cost of the KIBP office buildings.

(v) There were no designs for the earthworks at the KIBP offices and therefore the contractor was being paid for the amount of fill implemented. On the other hand, inspection of the buildings and the available drawings indicate that the works were generally carried out as per the designs. It should however be noted that there were no technical specifications for the buildings.

(vi) The overall cost per square meter for KIBP office buildings including external works is Shs.3,460,019 per square meter (excluding VAT). This in my opinion is high compared to similar projects in the region. Given the unstable nature of the ground, the cost should be in the region of Shs.2,550,000 per square meter.

(vii) There is notable weakness on the part of the consultant and in the design of the KIBP offices. The contract documents were not properly tailored for the works. The omission of the UIA offices from the measured works is one of the major sources of cost overrun. The design did not follow good practice as glazing to windows comes right off the floor slab without any solid protection i.e. up stand or rail to prevent damage to glass and protect occupants from falling through. It is also noted that the terrace has no balustrade and therefore cannot be used.
The reasonable correction to this inadequacy is to provide stainless steel railings, which is estimated at a cost of Shs.55,000,000.

(viii) There was delay in issuing instructions/documents to the contractor to start construction of office buildings after UIA had given instructions to proceed with the changes in the office block. There was also general lack of direction in the early stages of the project from the Consultant regarding the KIBP Offices. In August 2009 when the contract was supposed to be completed the Consultant had not issued windows/door schedules and details. The contractor also did not proceed diligently with the works.

This delay, attributable to the Consultant, is estimated to be about 1/3 of the total delay experienced in the delivery of the KIBP offices. In monetary terms this is equivalent to Shs.93,448,880.

The 2/3 of the delay attributable to the Contractor in monetary terms is equivalent to Shs.186,897,761. The total cost due to delays is Shs.280,346,642.

Although management explained that the delay was not attributed to the contractor or the consultant, documents reviewed indicate delays due to the consultant and the contractor. In my view, these should be made to pay for the related costs.

(ix) Defects were noted during the audit. These defects should have been reflected in a snag list if one were done. The defects were noted especially in finishes and there are leakages in a few areas as well.

The above should be mitigated by the retention fund which is yet to be paid to the contractor. Therefore, the Consultant should ensure that the correction of defects is done to the satisfaction of UIA; failure of which,
the retention of 5% (i.e. Shs.137,881,756) of the Contract sum should not be released to the Contractor.

(x) The National Industrial Parks Planning Committee was given planning powers by the Town and Country Planning Board (T&CPB). Although this was done with the intention of increasing efficiency in issuing permits for construction, we see it as a potential area of problems due to lack of accountability. One example is the issue of certificate of occupancy for the buildings despite the obvious safety risks.

(xi) This audit exercise was hampered by lack of proper records management procedures within the project. There is no standard system for managing records and therefore the security of the records cannot be guaranteed. There is a need to put in place a records management system.

(xii) Although a certificate of practical completion was issued in certificate No. 13, some of the implemented quantities were more than 100% and others were less than 100%. There is need for further scrutiny to establish the effect of the changes in quantities on the overall quality of the works.

(xiii) Although the KIBP offices have not formally been handed over by the contractor, they are already being occupied by UIA staff. This may cause some contractual problems including relieving the contractor from liability for defective work.

(xiv) An assessment of health and safety aspects at the completed office building found that provision for access by the disabled had been provided for. However there were some non-conformities that were noted in the following areas;
The building lacks fire extinguishers and nor is there a designated fire assembly point within the confines of the UIA office buildings compound;

- The upper section of the front view of the UIA office building lacks balcony guard rails thereby rendering it a safety hazard.

**Recommendations**

- Designs for phase II should be reviewed by an independent consultant so that the omissions of phase I are not repeated.
- The status of NIPPC as a planning authority should be reviewed and if it has to retain the planning powers, then there must be inbuilt safeguards to ensure accountability.
- Immediate steps should be taken to resolve the issue of (trespass) occupation of the KIBP offices without a handover certificate.
- The defects liability period for the buildings should be extended to at least three years to accommodate the consolidation settlement period.
- There is need for further scrutiny to establish the effect of the changes in quantities for items not implemented 100% on the overall quality of the works.
- There is a need to put in place a standard records management system within the project set up.
- UIA should recover the cost due to delays from the concerned parties.
- The Environmental Impact Assessment that was conducted for the KIBP needs to have its Environmental and Social Management Plan updated in line with changes in environmental and other legislation that have taken place since then.
- There is a need for UIA to work closely with the Occupational Safety and Health Department as part of its current environmental management activities. That way Occupational Safety and Health aspects are likely to be better mainstreamed in its interventions at KIBP and other planned industrial parks.
11.0 AGRICULTURE, ANIMAL INDUSTRY & FISHERIES

11.1 Strategic Planning

It was noted that the Ministry had a strategic plan for the period 2006-2008 that expired and the current one that relates to the period 2010-2015. However, there was no evidence to show that for the period 2008-2010, there was a strategic plan in operation.

This implies that what was implemented during the period under review, may not have been properly planned for. This could have impacted on the capacity to attain its intended objectives.

Management explained that for the period under review, planning continued to be guided by the Poverty Eradication Action Plan (PEAP) framework until the Development Strategy and Investment Plan (DSIP) came into effect.

I advised management to always ensure that it has a proper planning mechanism in place.

11.2 Risk Management

It was noted that the ministry does not have a risk management system that identifies risks to achieving the ministry's objectives. There is a risk that the ministry may not be able to achieve its objectives.

Management explained that the ministry manages risk through established units of internal audit, the monitoring and evaluation unit under planning department and the budget officer who tracks progress made towards achieving the sector objectives.

I advised Management to come up with a risk management system that will help identify risks early enough and address them.
11.3 **Lack of Comprehensive Database on Agricultural Statistics**

One of the core areas in the ministry’s development strategy and investment plan is agricultural planning and policy. Under this, lies the important statistical function of the sector aiming at maintenance of a comprehensive and up to-date database on agricultural sector including production and area statistics, early warning data and food security information.

However, it was noted that the ministry does not have a comprehensive database on production, early warning and food security. The available data is mainly department based and not harmonized. In addition, there is lack of data from several other participants in the agricultural sector and the districts. Lack of consolidated data can lead to duplication of activities.

Management explained that in its Development Strategy and Investment Plan 2010/11 to 2014 it had prioritized Agricultural data collection from lower levels.

I have advised Management to develop a format for all districts/stakeholders for data collection that can be consolidated into a database so that the ministry can become a one stop centre for all agriculture data in the country. In addition the Ministry should develop and strengthen capacity for collection, analysis, and dissemination of agricultural statistics at local government levels. This will necessitate use of information technology in the whole process.

11.4 **Fisheries Legislation**

The fisheries sub-sector is of very strategic economic importance as Uganda’s second top most export commodity providing employment to over five million people and earning revenue in form of foreign exchange for the country. It has been observed however, that Uganda’s fish sub sector competitiveness in terms of quality, quantity and export earnings has declined as shown below:-
Growth rates of the fisheries industry 2003/4-2008/9

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>9.6</td>
<td>13.5</td>
<td>5.6</td>
<td>-3.0</td>
<td>-11.8</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

*Source: Background to the budget 2008/09, UBOS, 2009*

The decline is mainly attributed to the recent developments in the industry with many players participating because of the increased opportunities in fish exports. This has resulted into increased but inadequately controlled fishing activities leading to dwindling fish stocks.

Despite these developments, the fisheries sector continued to be regulated by an old law that does not take care of the recent developments in the sector. It was noted that the Fisheries Act was enacted way back in 1951 and has since not been reviewed and amended.

Although the ministry started the process of enacting a new Act in the year 2000, the process has been unreasonably slow, leaving the sector to continue to operate under the outdated law.

Management explained that high level consultations were being made to expedite the process of coming up with a new bill during the year 2011.

### 11.5 Support for Export Breeding and Production Project in Sembabule District

A Memorandum of Understanding was signed between MAAIF and M/s Sembeguya Estates Ltd on 22<sup>nd</sup> March 2005. The purpose was to implement a pilot goat breeding project for strategic export under the presidential initiative programme for a period of five years. Under the MOU, GOU was required to provide Shs.6,751,476,000 while the Company was to contribute Shs.336,000,000. The estate was required to supply 150 male and 200 female exotic breed goats using its own funds and 54,000 improved Mubende goats.
using government funding. The goats were to benefit 108 farmers within the district of Sembabule and the project comprised of three components namely:

- Goat breeding and multiplication
- Infrastructure development (farm structures)
- Management and coordination.

Records show that the Project received Shs.800,000,000 from government in the financial year 2004/2005 for infrastructure development and purchase of the first lot of goats. Only 3,023 Mubende goats were procured but were not distributed to farmers at the time due to lack of sufficient funds.

Five years later, in the financial 2009/2010, the Ministry released another Shs.907,296,732 to the company. Using these funds, 5,040 Mubende goats were procured and these, together with the previously procured 3,023 goats were distributed to farmers. However, the following matters were observed:

11.5.1 **Expiration of the Memorandum of Understanding (MOU)**

The Memorandum of Understanding specified that the project would last for a period of five years from the date of signing (i.e. 22<sup>nd</sup> March 2005), implying that the project expired on 21<sup>st</sup> March 2010. In order to continue the operations of the project, the MOU had to be renewed in time.

Management explained that the draft of the new MOU had been submitted to Solicitor General for clearance. However, at the time of writing this report, no further details were available. Continuing to operate without a legally binding MOU may lead to loss of government funds.

I have advised the Accounting Officer to expedite the process of renewing the MOU in order to avoid possible loss of government funds.
11.5.2 **Insufficient Male Savannah Goats (male breeding bucks)**

According to the MOU, each farmer is supposed to receive 500 Mubende female goats and one male savannah goat. However, according to the technical specification document, the ratio of savannah goats to Mubende goats is specified to be 1:50, meaning that for 500 goats, a farmer needs 10 male savannah goats. It was noted that only 60 male breeding bucks were imported by the estate, and only 55 farmers benefited out of the 87 beneficiaries who got the female goats. Lack of adequate number of male bucks to serve the large number of female goats may result into slow implementation and achievement of the project intended objectives.

A male savannah costs about two million shillings translating into 18 million shillings for the extra nine savannah goats required to be contributed by each farmer for every 500 goats provided to them under the Memorandum of Understanding. However, the capacity of the farmers to procure on their own the extra male savannah goats was not assessed at the time of distributing the Mubende goats.

Management explained that, the farmers selected to participate in the project are expected to increasingly build capacity to purchase the male savanna bucks through sales of the male offspring. They further explained that not all bucks have been given to the farmers as originally planned because there has been a shortage of savanna goats from South Africa.

I have advised management to devise means of ensuring that all farmers who have received Mubende goats are provided with male savannah goats.

11.5.3 **Water Shortage**

According to Farmers interviewed during the audit inspection, Sembabule district lacks adequate water with the entire district having only 12 valley dams each serving a radius of about eight square miles, which is a very long distance for goats to travel. It was noted that no provisions for water were included in the
project plan. There is a risk that during the dry season the goats may be adversely affected. Management explained that four units of excavation equipment to assist farmers in excavating valley tanks had been imported by Government and distributed to districts, with Sembabule district being one of the beneficiaries.

Management is advised to address the water problem before it negatively affects the project.

11.5.4 **Multiplication of Goats**

According to the background to the project, an adult goat delivers twice within 13 months with high twining ratio. The first batch of 3,023 goats procured in 2004/5 using the first disbursement of funds stayed at the farm and should have delivered at least 30,230 off springs in five years when they were at the farm. However, there was no accountability for any of these off springs produced in the five year period.

I have advised Management to pursue the accountability for the goats produced in the five years.

11.6 **Fixed Asset Management**

11.6.1 **Maintenance of Buildings**

The Ministry owns several buildings across the country. However, a number of these buildings lack routine maintenance. For example the buildings at the ministry headquarters in Entebbe are dilapidated with walls and ceilings crumbling and these have not been renovated in the recent past. Similarly the buildings in Doho Rice scheme are dilapidated, leaking and in a poor state. They were put up in 1989 and have never been repaired/ rehabilitated. In Olweny Rice Scheme, part of the office block and one residential house were blown off by a storm. No repairs have been done. The buildings are bound to be completely lost if urgent repair works are not undertaken.
Management explained that repairs of buildings at the Ministry headquarters had not been carried out due to budget constraints and that Doho and Olweny schemes were to be rehabilitated under FIEFOC project funded by the ADB.

Management should urgently rehabilitate these properties to avoid further deterioration.

11.6.2 **Encroachment on irrigation schemes land**

An inspection of Doho, Olweny Rice schemes and Mubuku Irrigation scheme revealed that the schemes’ land had been encroached on. In Agwata which is part of Olweny rice scheme, a factory and other permanent structures were being constructed on the land. In Doho, encroachers have constructed permanent houses on the project land along the road to Butaleja district headquarters. In Mubuku Irrigation scheme, two hundred and sixty six (266) encroachers have been attracted to the scheme land in three villages of Kizungo (62 encroachers), Kyondo (188 encroachers), and Sebwe (16 encroachers).

Although the officers in charge of these schemes have reported these matters to the ministry, no action has been taken. There is a risk that all the schemes’ land may be lost to encroachers if no timely intervention is taken.

Management explained that topographic and cadastral surveys had been planned to enable processing of land titles for the schemes.

I have advised management to expedite this process and have the land secured from the encroachers.

11.7 **Faulty Watergates and silted canals in Olweny, Agoro and Doho irrigation schemes**

During the audit inspections, it was noted that the Watergates in Olweny, Agoro and Doho and Mubuku schemes were not functional. There are a lot of silt deposits in the canals that have blocked the rivers thereby changing the course
of the flow of water. This has made irrigation almost impossible in all the three schemes and as a result the production of rice and other crops has drastically reduced. I have advised management to rehabilitate the schemes in order to improve rice production in the country.

Management explained that, irrigation infrastructure including head works, Watergates and canals would be de-silted under the FIEFOC project funded by ADB.

11.8 **Doho Rice Farmers Association**

The Association comprises of farmers who utilise the project land for rice growing. Currently about 4,380 farmers are members of the association. The association hires out the land to farmers at a fee of Shs.20,000 per acre per season and collects the money should be utilised in the maintenance of the irrigation canals. However, there are no records to show how the money is collected, recorded, planned for and utilised.

In addition, the scheme infrastructure including the irrigation canals are poorly maintained and this leads to poor rice yields. Management should ensure that all the money collected from the hire of the scheme land is properly recorded and utilized for the maintenance of the scheme infrastructure.

Management explained that plans were underway to train and orient the farming community towards better and more effective management of the scheme.

11.9 **Unpaid electricity bill by Agwata New class farmers scheme**

It was noted that a bill worth Shs.10 million for electricity consumed by the scheme, has not been paid by the farmers. The bill has been outstanding for a long time and as a result, power was disconnected. No irrigation was taking place at the time of inspection in October, 2010 because the irrigation system of the scheme uses electricity.
Management explained that they planned to pay the outstanding bills in the FY2011/2012.

I advised Management to urgently settle the electricity bill in order to have the electricity supply reconnected and resumption of rice production.

11.10 **Non Ministry Assets included in the Ministry Asset Register**

The Ministry had included in its Assets register, assets which belong to other government organizations with separate votes as shown below:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abii farm</td>
<td>NARO</td>
</tr>
<tr>
<td>Kachwekano ZARDI</td>
<td>NARO</td>
</tr>
<tr>
<td>Maruzi</td>
<td>NAGRIC</td>
</tr>
<tr>
<td>NaCRRI</td>
<td>NARO</td>
</tr>
<tr>
<td>NaLIRRI</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL BLOCK 1</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL / NAMALERE</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL Block 2</td>
<td>NARO</td>
</tr>
<tr>
<td>NARO HQS</td>
<td>NARO</td>
</tr>
<tr>
<td>NFRRI [Nos 122-144]</td>
<td>NARO</td>
</tr>
<tr>
<td>Ngetta ZARDI</td>
<td>NARO</td>
</tr>
<tr>
<td>TUFMAC</td>
<td>TUFMAC</td>
</tr>
<tr>
<td>Buginyanya</td>
<td>NARO</td>
</tr>
<tr>
<td>Bulindi ZARDI</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL Block 1</td>
<td>NARO</td>
</tr>
<tr>
<td>NFRI</td>
<td>NARO</td>
</tr>
<tr>
<td>NARO/ VTC</td>
<td>NARO</td>
</tr>
<tr>
<td>SERERE RESEARCH</td>
<td>NARO</td>
</tr>
<tr>
<td>NARL-Senge farm</td>
<td>NARO</td>
</tr>
<tr>
<td>Lalle Ranch</td>
<td>Uganda Livestock Industries</td>
</tr>
<tr>
<td>Karamoja- Nabuin</td>
<td>NARO</td>
</tr>
</tbody>
</table>

The basis for having these assets included in the ministry register was not explained. This implies that the register is inaccurate and misleading.

Management explained that the assets belonged to departments/agencies which were previously under the ministry and upon attaining semi autonomous status; the assets were not transferred into their names.
This explanation was found unsatisfactory because upon verification of ownership documents, the assets were found to have been transferred into the departments/agencies’ names.

Management is advised to up-date the assets register accordingly and eliminate the assets which do not belong to the Ministry.

11.11 **Expenditure Unaccounted For**

It was noted that a number of ministry officials did not submit accountability for funds amounting to Shs.24,486,000 advanced to them to implement various activities in the Ministry.

I was therefore not able to confirm that the funds were utilised for the intended purposes. Delays in accounting for funds may lead to falsification of documents and loss of government funds.

I have advised management to institute recovery measures of the funds from the concerned officers.

11.12 **The Agricultural Chemicals (Control) Act, 2006**

The Government enacted the Agricultural Chemicals (Control) Act to control and regulate the manufacture, storage, distribution and trade in, use, importation and exportation of agricultural chemicals and for other related matters.

According to Section 5(1) of the Agricultural Chemicals Act, 2006 there is supposed to be established a board known as the Agricultural Chemicals Board appointed by the Minister of Agriculture who should hold office for a period of three years. It was noted, that the current Agricultural Chemical Board was appointed in 2004 before the enactment of this Act. This implies that the board is holding office illegally and the decisions they take may be challenged.
I have advised Management to follow up the matter with the Minister and have appointments to the board effected.

Management explained that the Regulations to operationalise the Agricultural Chemicals (Control) Act, 2006 had been submitted to the Solicitor General for clearance and upon operationalisation of the Act, the Agricultural Chemicals Board would be appointed.

However, in my opinion the approval of the regulations to operationalise the Act has no bearing on the appointment of the Board as a new Board should have been appointed after the coming into force of the new Act.

11.13 **Stores/Inventory Management**

Treasury Accounting Instructions prescribe procedures and guidelines for stores management and handling. It was however noted during the audit that stores/inventories were poorly managed. For example:

- Some of the stores had leaking roofs, no lighting systems, very poor ventilation systems, and no fire fighting equipment.
- Fumigation is not carried out and rodents have continued to damage the existing stores.
- Stores are poorly arranged and the items seen are not clearly identified with tags for easier identification. Chemicals, vaccines, etc that may be harmful to human life are kept together with other user items like stationery.

Management regretted the shortcomings and explained that proper maintenance of stores had been constrained by limited resources.

11.14 **Asset Maintenance Schedules**

Best practice requires that an entity identifies its critical assets and puts in place their maintenance procedures avoid break down of such assets which may affect service delivery.
It was noted during the audit that the ministry has not identified its critical assets in service delivery and lacked maintenance schedules for such assets, like Motor boats computers, generators, and Air conditioning systems and other equipment in the Ministry.

Lack of maintenance schedules may lead to complete breakdown of such equipment and may also result into increased maintenance costs due to unplanned and at times unnecessary repairs. I have advised management to put in place maintenance schedules for all critical assets and equipments, and ensure that they are regularly reviewed to monitor assets service due dates.

Management promised to put in place asset maintenance schedules.

11.15 **Motor Boats**

The Ministry owns 37 executive motor boats, and inflatable dinghies meant for patrol and harvesting of water hyacinth. According to records availed for audit, eight of the boats are being utilized by Maritime Security, a division under Internal Security Organization, another two boats are with Presidential Protection Unit, while one boat is with Office of The President. However, I was not availed with a memorandum of understanding showing the conditions under which the boats were lent to these departments. There was also no evidence that these motor boats are properly maintained by these organisations.

It was also noted that only eight boats under Fisheries Development Project, were marked with unique identifiable numbers. In addition, the boats were not recorded in the fixed asset register of the fisheries department contrary to section 804 of Treasury Accounting Instructions 2003, which requires a user department to maintain an Asset' Register to reflect details of each boat such as location, date of receipt/purchase, reference or registration number. There is a risk that in case of loss the ministry might find it difficult to trace the boats.
Management is advised to ensure that all the boats are properly maintained, marked with unique identification marks and are properly reflected in a fixed asset register as required by Treasury Accounting Instructions.

Management explained that they had planned to mark all boats in the financial year 2010/11.

11.16 Vegetable Oil Development Project IFAD Loan No.442 – UG

11.16.1 Compliance with the Environmental Laws

According to section 23 of the agreement between the GOU and BIDCO, the latter is supposed to comply with all the environmental laws and Regulations of the country.

However, a joint environmental audit carried out by NEMA, Jinja District Local Government, Water Resources Management and Department of Occupational Safety and Health showed that BIDCO was not fully complying with the environmental laws in aspects explained below:-

- Lack of a license to own and operate an effluent treatment plant as required by the National Environment (waste management) regulations 2006.
- Wastewater treatment plant that cannot handle its production capacity.
- Oil spillage around the fuel filling station.
- Transporting of sludge without a license from NEMA contrary to National Environment (Waste management) regulations 2006.
- Storage of sodium silicate in the open.
- A lot of noise emissions from the heavy oil engine and steam boilers. The personnel in this area do not wear any protective equipment against prolonged noise exposure contrary to section 13 of the occupational safety and health Act, 2006.
- Lack of documented Environmental Management system contrary to regulation 8 of the National Environmental Regulations, 2006.
- Abstraction of rain water from the lake without a permit.
Non compliance with the environmental laws can lead to penalties from NEMA and closure of BIDCO factory which would affect thousands of farmers who have invested in growing palm oil for BIDCO. Management should compel BIDCO to fully comply with the Environmental Laws.

Management explained that the environmental issues raised in the management letter had been brought to the attention of BIDCO Management, which claimed that they had been working closely with NEMA to ensure that they comply with all environmental requirements.

11.16.2 **Shortfall in Counterpart funds**

According to the Project work-plan and budget, the Government of Uganda was supposed to contribute a total of Shs.6,637,000,000 during the year under review. However, only Shs.5,597,949,034 was released to the project, leading to a shortfall of Shs.1,039,050,966. This affects the timely implementation of Project activities. Management was advised to liaise with the Ministry of Finance Planning and Economic Development over the matter.

Management explained that the concern had been discussed with the Ministry of Finance and in the FY 2010/11 more funds had been provided in the budget.

11.17 **Field Inspections**

11.17.1 **Farm Roads**

(i) **Procurement of a Low Loader**

It was noted during the audit that the project was supposed to procure a low loader to be used in the maintenance of farm roads. However, by the time of audit in November, 2010, the low loader had not been procured. There is a risk that farm roads may become impassable and collection of palm fruits disrupted. Management is advised to procure the wheel loader to avoid the farm roads becoming impassable.
Management explained that the process of procuring a low loader was initiated and the tender awarded. However, the company that was awarded the tender failed to supply the low loader with the specifications given. This necessitated restarting the procurement process.

(ii) Coverage of Farm Roads
A total of 250km of access and farm roads were planned to be constructed to ease the collection of crops from the farmers. However at the time of audit in November, 2010, only 174 Kms of roads had been completed. Collection of crops was being hampered by non completion of the roads. Management is advised to expedite the construction of the remaining roads to enable the smooth transportation of the palm crop.

Management explained that the 250 Kms of road network were supposed to be completed in June 2010. The delay in completing the roads was a result of the high rainfall in Kalangala District which affected the progress. By December 2010, a total of 210 Km had been constructed and it was expected that road construction would be completed by end of February 2011.

(iii) Road Maintenance Plan
It was noted during the audit that the project did not have a road maintenance plan. The absence of a maintenance plan may affect the future condition of roads that are very crucial in the transportation of crops from the farmers gardens. Management is advised to formulate a roads maintenance plan.

Management explained that the MoWT had designated an engineer to supervise and advise the Kalangala District engineering team on technical issues in relation to road works. The road works had focused on construction in the first phase to facilitate oil palm fruit collection and transportation to the mill. The District engineers in consultation with the MoWT had started working with the farmers and Kalangala Oil Palm Growers Trust on the road maintenance plan basing on
the already constructed roads. The maintenance plan was expected to be ready by April 2011.

(iv) **Seedlings**

The project ordered from M/S OPUL, a total of 300,000 palm oil seedlings at a cost of US$ 4.28 @ seed. It was noted that M/S OPUL imported the seedlings and these were expected to be ready for planting in October 2011. However, the balances of the funds on the project loan account may not be sufficient to cover the cost of seedlings given that the project has other outstanding commitments. There is a risk of legal action being taken against the project. Management is advised to look into the possibility of transferring the debt to VODP II.

Management explained that the seedlings were ordered in preparation for field planting by the farmers under VODP II and that costs be met by the funds in VODP II. They added that this step had to be undertaken to ensure that farmers had timely access to ready seedlings because of the lead time of one year required for raising seedlings in the nursery before field planting.

(v) **Lack Of Planting Materials**

The project is supposed to liaise with M/S OPUL to ensure availability of planting materials every time they are needed. It was noted during the audit that there were no seeds available to farmers to plant. Seeds were expected to be available in November, 2011. There is a risk that this may discourage farmers from engaging in project activities.

Management explained that M/s OPUL was raising 300,000 seedlings in their nursery, which would be enough to plant about 1,500 ha. And that the seedlings would be ready by December 2011. According to them, the delay in getting seedlings was due to the delay by farmers in committing land for oil palm production, due to fears and misinformation that their land would be taken.
11.17.2 **Project Closure Preparations**

The project completion date is 31st December, 2011 and closure of VODP loan account is scheduled for 30th June 2012. At the time of audit in November, 2010, the project had commitments totaling to about US$.1,701,431.15 comprising of Palm oil seeds (US$.1,284,000) and consumables (US$.417,431). However, the available balance of US$.1,157,888 (comprising of loan account balance of (US$.925,471) and special account balance of US$.232,417) could only partially clear the outstanding commitments, leaving a balance of US$.543,543 of commitments unpaid. In addition, the planned closure of the project on 30th June 2012 means that the project would continue to incur additional administrative costs for a period of about 24 months after its operations had ceased.

Management is advised to consider an earlier closure date and to come up with a solution of how the unpaid bills would be cleared.

Management explained that some of the costs like the cost of seedlings would form part of VODP II which is a follow on project.

11.18 **National Livestock Productivity Improvement Project - Project ID NO.P-UG-AA0-019; ADF Loan NO. 2100150007005 and Grant No.2100155001880**

11.18.1 **Budget Performance**

During the year under review, the approved budget for the Project amounted to Shs.9,123,000,000. However, by the close of the financial year, only Shs.6,225,152,379 had been received (representing about 68% of the budget) leading to a shortfall of Shs.2,897,847,621, as detailed in the table bellow:-
<table>
<thead>
<tr>
<th>Funding source</th>
<th>Budgeted Amount (U. Shs)</th>
<th>Actual Amount received (U Shs)</th>
<th>Variance (U Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>7,023,000,000</td>
<td>4,500,374,987</td>
<td>2,522,625,013</td>
</tr>
<tr>
<td>GoU</td>
<td>2,100,000,000</td>
<td>1,724,777,392</td>
<td>375,222,608</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,123,000,000</strong></td>
<td><strong>6,225,152,379</strong></td>
<td><strong>2,897,847,621</strong></td>
</tr>
</tbody>
</table>

Failure to access all the anticipated funding can hamper implementation of planned activities during the year.

Management should accelerate the process of Project implementation in order to access all the approved funds. This will allow the planned activities to be accomplished within the project duration.

Management attributed the slow execution of project activities to the fact that payment processes are protracted and this tends to slow absorption of funds and therefore execution of activities.

11.19 **Field Inspections**

An audit inspection of the activities executed by the Project was carried out in the implementing districts of Budaka, Pallisa, Sironko, Amuria, Masindi and Lira. The following matters were observed:-

11.19.1 **Cattle Crush and Livestock Markets in Masindi**

Field inspections were carried out on the cattle crush and the livestock markets that were completed during the period revealed the following matters:-

**Shoddy works**

Some evidence of shoddy works was observed regarding the construction works of the livestock market and the public toilets as shown in the following photographs:-
The unlockable gate at the goats and sheep compartments at the livestock market

The slack fence.

Major cracks developing in the toilet structures

With such defects, the facilities may not be used for the intended purposes and for the anticipated life span. I have advised management to ensure that the contractor carries out remedial work on the facilities since the works are still in the defects liability period.

Management explained that the structures mentioned were still under the defects liability period and the contractors had been informed of the defects to be corrected before retention was released.

11.19.2 Progress of Execution of Works Contracts

Whereas the execution of actual work for the under mentioned facilities commenced in the month of December, 2008 and was expected to be completed in a period of six months at the time of inspection these works were only at their final stage of completion 24 months from the start date. The Contractors
explained that the slow progress in the execution of these works was as a result of delay in releasing funds for the completion certificates already issued. This was likely to lead to the Contractors raising variation orders for costs arising out of increased costs for the materials used which had not been planned for at the time the contracts were entered into.

At Alira site (Amuria District), Pallisa Town Council and Sironko Town Council Slaughter Sheds, it was noted that the quality of works executed was poor as walls and floors were already cracking and the door and window shutters warping. Furthermore, the quality of the wire mesh fixed appeared weak and already torn apart. There is a risk that these structures may not serve for intended useful life contrary to the Objective for which they were designed to achieve. Management should always honor contractual obligations as and when they fall due to minimize payments for damages for defaulting on the terms of the contract. In addition, Management should ensure that the defects are corrected before the facilities are handed over.

Management acknowledged the shortcoming and explained that this was due to the slow processing of payment certificates, poor financial planning on the part of the contractors, Contractors being committed to many contracts at the same time and Escalation in price of steel and petroleum products.

11.20 **Creation of Sustainable Tsetse And Trypanosomiasis Free Area - Uganda Component (STATFA) Project - Project No. P-ZI-AZO-006AAF-002, Loan No. 2100150009197, Grant No. 2100155003920**

11.20.1 **Operation Of Bank Accounts**

Article 4.02 Section (iv) of the Loan Agreement required the opening of two special accounts, one in foreign currency and one in local currency for the loan and a separate local currency account for counterpart funds. On the contrary it was noted that the separate local currency account for the GOU counterpart funds that had been opened for the purpose was closed without agreement with
the Fund. As a result, GOU counterpart funds are not being deposited on the local currency account but have been mainstreamed in the IFMS payment system. This resulted into diversion of project funds. For example, out of the Shs.183,614,699 released to the executing Ministry for the Project as counterpart funding, we noted expenditure amounting to Shs.18,203,770 that was not applied to the Project activities.

Management explained that they had enhanced follow-up of Government Counterpart funding to ensure the funds are not diverted. In addition, Vote book is being maintained by the new accounts staff to ensure reconciliations with the GOU.

11.20.2 **Payment of taxes**

There was no evidence of remittance of PAYE amounting to Shs.14,470,203 deducted from staff salaries and wages. In addition there was no evidence of payment of PAYE amounting to Shs.1,387,500 on Procurement Specialist’s salary. Non adherence to Tax regulations may result into penalties being imposed on the project.

Management should clear the tax obligations with the relevant authorities.

11.20.3 **Procurement**

A review of expenditure records revealed that procurements amounting to Shs.10,323,500 were made without comparative quotations from 3 suppliers to allow for competition. Lack of comparative quotes does not allow achievement of value for money in the procurement process.

Project management should ensure that at least three quotations are obtained and evaluated.
11.20.4 **Government of Uganda Expenditure**

It was noted that there was no clear linkages between the accounting records and the financial statements with respect to GOU component expenditures. No cash book or expenditure register was maintained by the project to record expenditures by the GOU on a monthly basis. There was also no evidence of Project monthly review of the GOU expenditures incorporated in the project accounts on a monthly basis. The Cash book in respect of GOU expenditures should be maintained and such expenditures incorporated in the Project financial statements on a monthly basis.

Management explained that the GOU cash book was being maintained on a quarterly basis since the budget are prepared and implemented on a quarterly basis.

11.20.5 **Translation Of Foreign Exchange Transactions**

The accounting policy of the project in respect to foreign transactions is to translate foreign transactions at the ruling rate at the time of the transactions. We however, noted that this had not been complied with during the course of the year. Lack of adherence to project foreign transaction policy could result into misstatements of financial expenditures in the Project books of accounts.

The Project Accountant should ensure adherence to foreign transaction policy in the treatment of project expenditures and receipts.

11.20.6 **Expenditure Unaccounted for**

Amounts totaling to Shs.20,040,798 advanced to various staff project were not supported with accountabilities in form of activity reports, receipts, pay sheets and statements. In addition a total of US$ 3,647 advanced to the Project Procurement Specialist to cater for international travel was not utilized nor refunded to the Project. In absence of supporting documentation, I could not confirm that the amounts were used for the intended purposes.
Management explained that efforts are being made for the parties involved to account and re-bank the funds.

11.20.7 **Fixed Assets Management**
A review of controls over the project fixed assets revealed that some project fixed assets were not yet engraved and that the fixed asset register did not have complete information regarding location of the assets and dates of purchase of the assets. In addition, it was noted that fixed assets, amounting to Shs.72,502,270 had not been recorded in the register. Failure to engrave and update the assets register complicates the process of tracking of the project assets.

Management should ensure immediate engraving of all Project fixed assets and the fixed asset register should be updated in a timely manner.

11.21 **Fisheries Development Project**

11.21.1 **Limitation of Scope - Expenditure Unaccounted For**
Out of the Shs.1,574,506,000 released as GoU counterpart funding for the period, only documents amounting to Shs.301,907,352 were availed for audit and verified. This leaves expenditure amounting to Shs.1,273,598,648 not audited.

In absence of the supporting documentation, I could not verify whether the funds were utilized for the intended project activities for the period

11.21.2 **Civil Works Funding**
The funding agreement provides that civil works would be funded 86.4% by the ADB and 23.6% by GOU funds. However, civil works funding for the period were met to the extent of the ADB obligations. Ultimately, the VAT component of certificates of works of Shs.63 billion remained outstanding as at 30\textsuperscript{th} June 2010. Inadequate GOU commitment to funding obligations amounts to breach of
funding agreement and may affect project progress. There is also a risk of legal action being instituted by the contracting firms.

All legal requirements for the operation of the project should be attended to.

11.21.3 **Finance and Accounting Manual**

Clause 61.3 of the ADB disbursements handbook requires the project to have in place a financial regulations manual. We were not availed with proof of existence of the financial regulations manual.

The omission amounts to contravention of the ADB funding agreement and may impact on the effectiveness of the internal controls over project finances.

All legal requirements for the operation of the project should be attended to.

Although management stated that a copy of the financial regulations manual was available and regularly used by the project accounts unit for reference, the project has not developed the manual as required by the ADB handbook.

11.21.4 **Management of Project Assets**

During the review of the fleet management function we did not access the vehicle log sheets to satisfy ourselves that the movement of the project vehicles and motor boats was for project activities. It is not possible to ascertain whether usage and the related expenditures were to the benefit of the project. Vehicle movements should be recorded with a view of avoiding movements not relevant to the objectives of the project.

Management explained that all vehicles and boats procured by the project have log books but at the time of audit they had been surrendered to the audit unit of MAAIF for verification. However, I was not able to verify this assertion because of lack of documentation.
11.21.5 **The New Fish Act**

The ADB funding agreement required the enactment of a Fish Act not later than two years after the loan became effective. The Act was not in place by the time of our audit. The omission amounts to contravention of the loan agreement and undermines the objectives of the Project.

Management should ensure that all legal requirements for the operation of the project are attended to.

11.21.6 **Project Completion Report and Exit Strategy**

In the Aide Memoir of the ADB Supervision Mission of 4th to 15th May 2010, it was recommended that Government prepares a Project Completion Report, or documentary outlining the achievements of the project and lessons learnt. It was also recommended that once management methods were agreed upon, Government should launch the bidding by private firms for the management of landing sites on commercial terms. These activities had not been carried out by the time of our audit.

These delays pose further difficulties for the completion and closure of the project, given that the project closing date is 31st December 2010.

Management should speed up these activities to enable a conclusive completion and closure of the project.

Management indicated that the report compilation process was ongoing.

11.21.7 **Construction of Fish Markets/Fish Landing Sites**

While the official closing date for the project is 31st December 2010, it was noted that construction of landing sites lagged behind with no indication that PCU and consulting engineers invoked relevant clauses in the construction contracts to cause delivery of works in time. Selected sites that lagged behind were as follows:-
a. **Kiyindi Landing Site (Buikwe District)**
   - The cofferdam had been constructed but the marine structure/jetty had not been constructed.
   - The Ice Mega Shed had not been completed
   - The fish landing bay had not been constructed yet
   - There was no electric power connection to the grid.
   - There was no generator
   - The changing room, security room and administration block were only semi finished.

b. **Kagwara Landing Site (Soroti District)**
   - There was no electric power connection to the grid
   - There was no generator
   - There was no shelter atop the generator shrub
   - There was no water supply

c. **Soroti Fish Market**
   - The fish market construction had been completed and handed over in September 2009 according to explanation by the Soroti DFO).
   - However, fish mongers were still selling from outside the handed over market.

d. **Majanji Landing Site (Busia district)**
   - The ice plant had not been delivered/installed
   - There was no shelter atop the generator shrub and the exhaust cubicle of the generator was water logged.

e. **Mbale Regional Aquaculture Development Centre**
   - The access road had not been constructed
   - One (of two) elevated transfer receiver reservoirs had not been constructed
   - Bore hole construction had not began
   - One (of three) water tanks had not been delivered/installed
   - Electric power connection to the grid had not been done.
The delays pose project completion difficulties, causing slippage and the set objective of improving the quality of fish is not being attained.

Management should explore possible ways of causing delivery of works in the stipulated time or work out a realistic completion date.

Management attributed the delays to termination of the contract followed by delayed approval by ADB of the method of procuring another contractor to complete the works. It was also indicated that delays in the payment process further affected work progress.

11.22 Construction of Kajjansi Aquaculture Research and Development Centre
This facility, whose construction commenced in May 2008, with a contracted completion date of October 2009, had not been completed by the time of our audit. The last certificate of works issued was in March 2010. We found no proof of management having invoked relevant contract clauses to compel the contracting firm to deliver in time.

The delay undermines the achievement of the set objectives of the project within the period.

Management explained that the weather affected the excavation of ponds and water reservoirs and these constitute 80% of the works remaining and indicated that possible efforts were being made to ensure completion of the works within the remaining time.

12.0 LANDS, HOUSING & URBAN DEVELOPMENT

12.1 Pool Houses Sales Scheme
The Government introduced a scheme for the sale of former pool houses to public servants through a mortgage scheme in 1994. According to the guidelines, the first opportunity would be offered to the sitting tenants, who
would be required to indicate their intention to purchase within a period of twelve months from the date of offer. The guidelines further provide that, all units that would not have been taken by the sitting tenants with a commitment of the down payment would be offered to other interested civil servants who would not have benefited from the scheme before. During the year under audit, a review of the Pool Houses Sales Scheme revealed the following matters:

- 103 beneficiaries were offered properties, opened accounts and have since made deposits to the bank. However, the authorities have not yet communicated the property values to Housing Finance Bank to enable the bank create payment schedules and also ascertain the amount of arrears.

Management is advised to provide the property values to enable the bank proceed with its administrative arrangements.

The Accounting Officer explained that the number of cases without valuation had dropped considerably. He attributed the delay to complete the valuation to lack of adequate staffing in the valuation division of the Ministry.

- It was noted that 332 public servants were offered properties, paid the down payment of 8% of the offer value and individual payment schedules have been created by the Housing Finance Bank but the property titles have not been secured by them to enable execution of the mortgages.

Management should liaise with the Uganda Land Commission to expedite the process.

The Accounting Officer attributed this to lack of knowledge of the titling process, failure of the affected individuals to meet the required conditions and settle their fees and lack of follow up by the beneficiaries. In order to expedite the process, the Ministry had embarked on sensitization of the affected individuals.
According to Clauses 14 of the Agency Contract, the Agent was to maintain, in accordance with proper accounting principles, accounts evidencing the amounts received from the sale of housing units. The Agent was required to submit to the Principal audited accounts that relate to this agreement annually. However, in absence of accounts, I was not able to establish whether this requirement is being complied with.

12.2 **Understaffing**

The Ministry has an approved staff structure of 392 employees following the restructuring exercise of 2007. However, only 257 posts had been filled by the time of audit leaving a staffing gap of 135 posts. In addition, a number of staff had been in acting positions since 2006 contrary to the Public Service Standing Orders that provide for a maximum acting period of 6 months. The existence of staffing gaps and staff acting in key positions for long time may impact negatively on the Ministry service delivery.

It was further noted that twelve staff that had completed serving the mandatory probationary period several years ago had not been confirmed as required by the Standing Orders.

Management is advised to liaise with the Ministry of Public Service to expedite the recruitment process.

The Accounting Officer explained that the Ministry is engaging the responsible authority to ensure full establishment. He attributed the problem of officers remaining on probation for long to non compliance with performance appraisal requirements by the concerned staff and indicated that the concerned officers had been asked to comply.

12.3 **Stores Management**

An audit inspection of the stores of the Ministry revealed the following matters;
• There was no store keeper during the period under review. The stores function was being managed by the Office Supervisor.

• The store was small and congested. Accordingly, some items were scattered on the floor making them vulnerable to pilferage and deterioration in value.

• The items recommended for boarding off were still being kept in the stores resulting into continued loss of their realizable value.

The Accounting Officer explained that management of stores had been problematic but improvements were being made. He attributed this to lack of the post of a storekeeper on the establishment and as a remedy an officer had been temporarily assigned the duty of storekeeper. On the disposal of the obsolete items, he indicated that the process of disposal was underway.

I have advised him to liaise with the Accountant General’s office to ensure that a Store Keeper is deployed in the interim pending review of the Ministry structure. The process of disposal should also be expedited.

12.4 **Department of Surveys and Mapping**

An audit inspection of the Department of Surveys and Mapping revealed the following matters;

12.4.1 **Under Staffing**

It was noted that out of the 81 approved posts, only 49 had been filled leaving 32 posts vacant out of which 22 posts fall under the Mapping section.

The Accounting Officer explained that the matter of staffing is being followed up with the responsible ministries.
12.4.2 **Incomplete Demarcation and Survey of International Boarders**

During the year, Shs.1.7bn was budgeted for both development and recurrent activities for the Department. It was noted that the bigger portion of the budget was for the survey of international boundaries bordering Uganda with Rwanda, Kenya, Democratic Republic of Congo, Sudan and Tanzania. However, out of a total of 546 kilometers planned by the Department to be surveyed, only about 200 kilometers along Tanzania – Uganda border had been conclusively surveyed by the time of inspection in November, 2010, leaving 346 kilometers not surveyed as shown below;

<table>
<thead>
<tr>
<th>International Boarder</th>
<th>Status provided by Accounting Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sudan – Uganda 200 kms</td>
<td>Names of members to represent Uganda on the Joint Boarder Technical Committee were submitted to Khartoum. Uganda is awaiting names of proposed members to represent Sudan.</td>
</tr>
<tr>
<td>Kenya – Uganda 100 kms</td>
<td>There is a disagreement between the two countries on the emplacement of the boundary pillars in Lake Victoria. Work was halted until an understanding is reached between the two parties.</td>
</tr>
<tr>
<td>Congo – Uganda 40 kms</td>
<td>Joint meetings held and a concept note, budget and workplan have been finalized. Arrangements are underway to send the concept note to the AU for funding.</td>
</tr>
<tr>
<td>Rwanda – Uganda 6 kms</td>
<td>The whole boundary between Uganda and Rwanda has not been surveyed. But a joint concept note, budget and workplan were submitted to the AU for funding.</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that before the exercise is accomplished, the Joint Boarder Technical Committees have to perform a number of activities which include analysis of;

- Various existing protocols and maps between the respective countries
- Data
- Equipment and boundary marks required
- Costing of the exercise
- Sensitization of the border communities
- Field work visits by a joint survey team
- Source documents like Order in Council and Constitutions of the respective countries.

I have advised the Ministry to continue liaising with counterparts in those other countries to ensure that the exercise is not delayed. This will also necessitate provision of adequate resources to the Ministry for the purpose.

12.4.3 **Stores**

The department does not have a Store. All inventories were being kept in different locations with no obvious person in charge and some items purchased were lying idle for more than six months. For instance, over ten swivel chairs purchased in January 2010 were still in their boxes, computers and assorted toner whose values could not be established due to lack of records were still intact. The Building which used to house the stores had been abandoned due to dilapidation.

It was also observed that the department does not have a storekeeper. Hence, supplies were being received by officers other than the storekeeper contrary to TAI Part ii Para 118, and stores records like the stores ledger, requisitions and issue vouchers were not maintained. In absence of such records, accountability for stores purchases becomes difficult.

The Accounting Officer attributed the poor state of buildings to lack of adequate funding.

12.4.4 **Surveys and Mapping Equipment**

It was established that most survey equipment was either obsolete or vandalized. For example, the printer which is meant to do most of the printing
work for the department broke down and most of the departmental work was pending. There were reports of cases of forgeries of deed plans where staff who were working on the printer allegedly got involved in forgery of 12 deed plans for some plots in Bushenyi. Other equipment like pillars/survey monuments were vandalized and have never been replaced.

The Accounting Officer explained that a request for a four colour printing machine had been made to the World Bank. However, in the meantime, the Department was meeting its printing requirements through out-sourcing.

12.4.5 **Digital Mapping Project**

The project started way back in 1995 with the objective of converting analogue maps into digital maps to allow creation of topographical databases for the districts of Uganda. Currently, it produces maps for use by the districts for their physical and commercial planning purposes. However, according to the project coordinator, the project has since been bogged down by lack of funding. In addition, the Project is facing an acute shortage of staff. The Project Coordinator indicated that out of the ten (10) staff the project started with, only three (3) were remaining. Without adequate funding and staff resources, the department may not be able to serve the purpose for which it was established.

Management is advised to investigate and establish the causes of the high turnover and address them. Adequate funding should be mobilized to enable the project achieve its objectives.

12.5 **Utility Payments (Shs.305,369,140)**

Analysis of the Payments Register Report on the IFMS indicated that a total of Shs.305,369,140 was paid out to cater for electricity (Shs.28,920,000), water (Shs.23,420,000) and telephone expenses (Shs.253,029,140). The following matters were however observed upon review of the related records;

- The utilities register is not properly maintained and updated.
• The electricity bills (amounts) posted in the register do not match with the payments made.
• Reconciliation of meter readings is not done to confirm that billings are made in respect of water and electricity consumed.
• Telephone deposits are made without reconciling telephone accounts’ balances.

These weaknesses in controls over utility payments expose the Ministry to the risk of incurring costs for which services have not been provided. The Accounting Officer should ensure that utility registers are properly maintained and reconciled to keep track of the Ministry consumption of utilities.

13.0 WATER & ENVIRONMENT

13.1 Expenditure Unaccounted for
A total of Shs.117,601,260 drawn in cash to cater for field activities and office running was not accounted for by officers who claimed and/or signed for the funds from the cash office.

A further shs.6,720,000 was advanced to Lapyem Alfred’s personal account to cater for routine monitoring of ongoing contracts and is yet to be accounted for. This contravenes regulations that require that advances be retired, by the end of the financial year.

Accordingly, I am not able to provide any assurance as to whether the funds were applied for the purposes intended. Delay in accounting for public funds can lead to falsification of the accountabilities.

13.2 Contract Variations
A contract was entered into by the Ministry and a Company to undertake Civil works at a cost of Shs.11.6 billion. Scrutiny of the certificates presented for
payment revealed a variation of Shs.1,363,113,904 from the original contract sum.

The variation arose from price adjustments due to inflation; however, I was unable to confirm the authenticity as no formal approval by both the contracts committee and the project supervisor was presented for audit. I was not able to verify the validity, valuation and accuracy of the contract variation.

I advised management to ensure that all contract variations are always approved by the ministry contracts committee.

13.3 **Understaffing**

The Ministry approved structure provides for 635 positions. However, the Ministry had 212 vacant posts at the end of the financial year under review. Some of these are senior posts that are critical to the Ministry, for instance the department of Meteorology has only one person above senior meteorological officer. This is likely to impact negatively on the service delivery of the Ministry as a result of extra workload on the existing workforce.

Management attributed the variance to bottlenecks created by Ministry of Public Service, the Public Service commission and Ministry of Finance.

I advised Management to liaise with the responsible authorities in order to have the posts filled.

13.4 **Long Standing Overdraft on Account 701.203033.1**

Review of the IFMS cashbook indicated that the Ministry overdrew their Treasury General Account for the financial Year 2007-2008 by Shs.385,376,218. By the close of the financial year under review, this overdraft had not been made good. In addition cash flows for the current financial year (2010-2011) had been posted to this overdrawn cash book which is likely to create confusion regarding cash balances on the current TGA.
The accounting officer explained that on the advice of Ministry of Finance this overdraft has been cleared using funds from the current budget. This, in itself is irregular and points towards diverting funds from the current appropriation without proper authorisation.

I advised the Accounting Officer to liaise with the Ministry of finance and ensure that the overdraft is settled in an appropriate manner.

13.5 **Un-reconciled NTR Figures**

The Ministry registered NTR collection amounting to Shs.902,067,526. However, scrutiny of the Bank Advice Forms issued by the Ministry revealed an amount of Shs.693,821,553 while NTR returns from banks revealed yet another figure of Shs.673,150,651 as NTR collected in the period. No reconciliation was undertaken by management to establish the reasons for these variances. This therefore implies that the NTR records may be unreliable.

The accounting officer attributed this shortcoming to lack of trained staff at the Directorate of Water resources to perform the appropriate reconciliations.

I advised the accounting officer to ensure his staff are appropriately trained to perform duties entrusted to the entity and to investigate variances.

13.6 **Direct Procurement**

Section 108 of the PPDA Act spells out the threshold of Shs.2,000,000 below which an entity can use micro procurements. It was noted however, that in many instances, funds above this threshold were advanced to personal accounts from which individuals made procurements from firms of their own choice, as shown below:-
<table>
<thead>
<tr>
<th>Reference</th>
<th>Amount (shs)</th>
<th>Payee</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>D413/06/10</td>
<td>2,194,800</td>
<td>Pachutho Kennedy</td>
<td>Repair of photocopier</td>
</tr>
<tr>
<td>D487/06/10</td>
<td>4,475,000</td>
<td>Pacutho Kennedy</td>
<td>Assorted electrical equipment</td>
</tr>
<tr>
<td>D335/05/10</td>
<td>26,378,000</td>
<td>Mwebesa Enock</td>
<td>Fencing of weather station</td>
</tr>
<tr>
<td>D51/12/09</td>
<td>19,195,000</td>
<td>Mwebesa Enock</td>
<td>Fencing of weather station</td>
</tr>
<tr>
<td>D565/11/09</td>
<td>6,417,000</td>
<td>Kizito Paddy</td>
<td>Rewiring of new Admin Block</td>
</tr>
<tr>
<td>R627/5/10</td>
<td>4,080,000</td>
<td>Byaruhanga R</td>
<td>Advanced for IFMS router and switch</td>
</tr>
<tr>
<td>R118/06/10</td>
<td>6,000,000</td>
<td>Pacutho Kennedy</td>
<td>Assorted office equipment</td>
</tr>
</tbody>
</table>

It was noted that most of them did not reflect any delivery of goods and the items were not taken on ledger charge either. This not only violates the procurement law but also casts doubt as to whether the right quality and quantity of goods were procured, and put to proper use.

The Accounting Officer explained that the anomaly arose due to the urgency of the activities yet the procurement process was lengthy.

I advised management to always follow the laid down procurement regulations and to provide the necessary documentation to confirm that all the goods were received in the stores.

13.7 **Un approved Variation of contract**

A framework contract to supply 100 boreholes over a period of 2 years was signed between the Ministry and a Company on 6th October 2008 at a contract sum of Shs.1,886,184,000 exclusive of taxes.
By the close of the financial year under review, a total of Shs.2,152,974,049 had been certified in respect of the contract without any approved variations. This resulted into an overpayment of Shs.266,790,049.

The accounting officer attributed this to an error by the Procurement unit to include a contract sum in a framework contract, and agreed to the need of having sought a contract variation.

Management is advised to closely monitor contract payments to avoid such anomalies.

13.8 **Splitting of Procurements**

In a number of instances, procurements appear to have been split and capped in the range of Shs.1,900,000 in an effort to avoid the Shs.2,000,000 threshold.

For instance, on the 22nd June 2010, 22 reams of headed paper were directly procured from a Company at a cost of Shs.1,770,000. On the 25th of June another direct procurement of 22 reams of headed paper was made from the same company. Both requisitions were prepared by the same officer on 21st May 2010. The practice is intended to avoid the use of the recommended procurement method. Splitting of procurements not only contravenes the procurement laws but also denies the entity the savings that come with bulk purchases.

The Accounting Officer has explained that the Ministry now uses framework contracts to manage the procurement of goods that are frequently needed.

I advised management to amalgamate procurements for similar items so as to benefit from bulk purchases and also adhere to the financial regulations.

13.9 **Contracts Ledger**

Proper maintenance of a contracts ledger enables an entity to track amount certified, amount paid, unpaid balance, amount retained, amounts overdue and
revisions in contract sums. A review of the ministry’s ledger revealed the following:

- There is no consistency in arriving at the unpaid balance; in some instances retentions are deducted while in other instances retentions are not deducted, implying that the balancing figure could be amount not paid or amount not certified.
- In some instances the contracts are not identified by a contract number.
- Some contracts are entered up to three times.
- Payments are not dated and have no reference to the EFT number.
- There are a number of arithmetic errors and there is no sign of review by a supervisor.
- In some instances the figures entered differ significantly from the certified amounts.

The current trend is likely to cause financial loss to the entity through double payments, over payments and payments to fictitious contractors.

I advised management to use the contract LPO facility on the IFMS to track long-term contracts for all subsequent contracts.

13.10 **African Union Summit Expenditure**

A total of Shs.222,000,000 was advanced to the Ministry in June 2010 to cater for purchase of metrological equipment (hydrogen generator and radiosons). Due to time constraints, the procurement process was not completed by close of the year.

Only Shs.21,121,400 was spent by the Climate Change Project for purchase of printed stationery and safari day allowances for meteorological staff during the summit. The unspent balance of Shs.200,878,600 was transferred back to the Treasury General Account. This implies that the Ministry failed to achieve the funding objective.
The Accounting officer explained that the Ministry sought authority from PS/ST to use the unspent balances, but was not granted.

I advised the Accounting Officer to always utilise funds as requested in time so as to implement all planned activities.

13.11 **Wrong Calculation of PAYE**

The income Tax Act provides for calculation of PAYE in relation to employment income and also stipulates that the payment of arrears does not change ones tax bracket.

Review of the Payroll revealed that in a number of instances where arrears were paid, the tax calculations were either overstated or understated resulting in a net financial loss of Shs.3,924,456 to government.

The irregularity not only denies government revenue but also unfairly diminishes employee salaries in cases of over taxation.

Management promised to make good the over and under deductions and subsequently reconcile with the Tax body. I await the outcome for further verification.

13.12 **Maintenance of Fixed Assets**

The Ministry owns a number of assets some of which require routine maintenance. Interview with the asset managers revealed that the entity does not have a proper asset maintenance policy but only uses reactionary means i.e. repair after break down. Absence of such a policy exposes assets to accelerated wear, premature disposals and creates a lot of idle time for staff when they break down. Laxity on the part of management could probably explain the absence of documented procedures and guidelines to be used when maintaining fixed assets.
The Accounting Officer explained that in most cases, the Ministry is unable to have service level agreements due to uncertainty on unavailability of funds.

I advised Management to develop and implement an asset maintenance policy and if need be, enter into service level agreements for some critical asset lines.

13.13 **Loss of Assets**

Losses of two motor vehicles and a motor cycle through theft, have not been reflected in the Ministry Statement of Losses for the year as required by the Public Finance regulations.

In addition two new Vehicles were involved in accidents and damaged beyond repair. One was boarded off at a salvage value of Shs.300,000. These were not considered as losses and hence not included in the statement of losses as well.

The Accounting Officer explained that the matter is being investigated by police.

I recommend that the losses be investigated to their conclusion and properly dealt with in accordance with Public Finance and Accountability Act, 2003 and the accompanying regulations and instructions.

13.14 **Legal Ownership of Land**

The Ministry by nature of its activities has put up infrastructure in form of valley tanks, dams, gravity flow schemes and regional offices scattered country wide. Although the water policy states that the location of water facilities is demand driven and therefore land should be provided by the would be beneficiaries, it was noted that the Ministry has not obtained land ownership on any of the facilities despite huge investments of up to shs.6 billion.

In addition, several plots owned and developed by the Ministry have no land titles to confirm ownership. These include the following:-
<table>
<thead>
<tr>
<th>Location</th>
<th>Size</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plot 22-28 old Portbell -Luzira</td>
<td>0.53ha</td>
<td>Custody of title unknown</td>
</tr>
<tr>
<td>Plot 23 and 25 Commercial Street –Luzira</td>
<td>0.08ha</td>
<td>No title</td>
</tr>
<tr>
<td>Plot 5 Sentamu Road Mbarara-Kakyeka</td>
<td>Approximately 0.5ha</td>
<td>Not surveyed, no title, has 96 containers(shops)</td>
</tr>
<tr>
<td>Otucopii-Soroti Katakwi road</td>
<td>Approx 0.5ha</td>
<td>No title</td>
</tr>
<tr>
<td>Camp Swahili-Soroti</td>
<td>Approx 0.3ha</td>
<td>No title</td>
</tr>
</tbody>
</table>

The oversight, on the part of the Ministry in obtaining ownership of the land puts Government properties at risk of being encroached on by unscrupulous persons. A case in point is Karushonshomezi dam in Sembabule district, which has been claimed by the land owner thereby frustrating Government efforts to have the dam refurbished.

The Accounting Officer explained that land acquisition was previously left to Local Authorities. However, there is a cabinet memo directing all ministries’ to budget for these acquisitions in future.
I advised management to revisit the policy regarding land acquisition for water facilities.

13.15 **Contract Management**

Section 259 (1) of the PPDA regulations 2003, requires the user departments to nominate a member of staff with appropriate skills and experience to be contract manager on any contract procured by the Entity. The contract manager is charged with the responsibility to manage and supervise the contract, ensure compliance with the regulations and keep proper records on contract performance.

Section 258(3) requires the contract manager to make a contract implementation plan using PP form 60 and submit a copy to procurement unit.
It was however, noted that in most instances the Ministry did not adhere to these requirements and in some instances there was no documentation being
kept on contract performance. This responsibility has largely been left to procured consultants.

This practice has often led to the execution of contracts contrary to the agreed contract terms, delayed completion and stalemates.

Management has been advised to adhere to the law by having contract managers properly appointed and tasked with the requisite responsibilities in accordance with the PPDA Act and Regulations.

13.16 **Kamwenge Water Works**

The design provided for construction of a gabion (dam) to hold water so as to increase the water level in the area to appropriately cover the draw pipe. The gabion was washed away creating two serious consequences:

- The water was diverted towards the nearby bridge base and is threatening to wash it away, which will result into the collapse of the bridge.
- During the dry season the water levels are so low such that the draw pipe cannot access the water.

A 90mm draw pipe was used which greatly increases the time taken while pumping water and consequently leads to escalation of electricity costs.

In his response, the accounting officer explained that the gabions across river Mpanga were washed away by floods hence diverting the water towards the base of the bridge. This caused low water levels in the river so that the draw pipe could not access water. The ministry plans to construct a retaining wall masonry to divert water away from the base of the bridge and this requires approximately shs.400,000,000 which will be budgeted for in 2011/12. For the time being, the ministry has redirected the water away from the base of the bridge into intake works using sand bags.
13.17 **Irregular Salary Payments**
In my Annual report for the year ended 31st June 2009, I indicated that salary payments amounting to Shs.28,858,228 were irregularly paid to staff who were no longer in employment with the Ministry. To-date, only Shs.2,300,000 has been recorded as recovered and 2,048,000 of this has been banked on the EFT cash Account.

The recovery process is very slow, with two officers making no remittances at all. Depositing these funds on the EFT cash account comingles the recovered funds with operational funds which is irregular.

There also appears to be a delay between recovery of funds and banking which escalates the risk of loss.

The Accounting Officer explained that despite numerous reminders some of the concerned officers remained adamant.

I advised the Accounting officer to refer the matter to the solicitor General for those officers who have refused to refund.

13.18 **Follow up of Internal Audit Recommendations**
13.18.1 **Stores Management**
- **Information & Communication**
Effective communication involves; provision of information to all levels of the stores function in order to run the operations and move towards achievement of the objectives.

It was observed that in the present system, stores information is not systematically processed, operational staff do not generate reports and forward them to senior management and others who may require them to aid decision making.
It was also noted that the operating stores management staff is not instructed to generate information/reports. Losses through pilferage, maladministration, and office abuse may occur.

Management was advised to formally instruct the head of stores to regularly generate reports as prescribed in the Treasury Accounting Instructions.

- **Authorisation of Stores Issues**
  Paragraphs 132 and 514 of TAI, 2003, Part II on Public Stores require that issue of inventories must be against requisition vouchers signed by the head of the user department. Paragraph 111 of above mentioned legislation also prohibits removal of inventories from the store without the production of a properly completed and authorized issue voucher.

  Contrary to this regulation however, Store Requisition Vouchers and Store Issue Vouchers are not authorized at all by the responsible officers such as heads of departments and receiving officers.

  Besides, items were usually issued in bulk to user departments yet eventual utilization of these items is not documented.

  It becomes difficult to ascertain whether these items are actually utilized by officers attached to the particular department.

  Issue of store inventories without the authorization of heads of departments implies weakness of controls on stores and may lead to pilferage of store inventories.

  The Accounting Officer was advised to ensure that all stores issues are appropriately authorised and that issues are not in bulk to facilitate appropriate accountability.
• **Stores Stocktaking**

Paragraphs 104 and 105 of TAI, 2003, Part II on Public Stores require that the Accounting Officer should not only cause stocktaking on a regular basis but also scrutinize the store records to satisfy him or herself that the inventory procedures and accounting are adequate.

Contrary to this regulation however, the ministry did not conduct any stock taking since 2001. Due to lack of stocktaking by an independent person, majority of store item balances do not correspond with actual stock levels especially for slow moving and obsolete stocks such as bore holes spare parts, fittings and pipes.

The Accounting Officer attributed this to lack of staff to carry out the activity.

I advised the Accounting Officer to regularly undertake stock counts in order to enhance the integrity of the store records.

13.18.2 **Financial Statements preparation**

In the present process of financial statements preparation, it was noted that there is no proper monitoring system for adequate oversight, reconciliation and reporting of the financial operations. Operating staff commented that they do not make bank reconciliations till at year end. Departments do not get program financial performance progress reports. Even Accounts Department’s own operating progress reports were not availed for inspection.

In all operational areas of financial statements preparation, we observed that monitoring controls were significantly lacking.

Program managers/other stakeholders may lose confidence in the reliability of information generated by the process.
I advised that the head of the accounts Unit puts in place a monitoring processes to measure performance of operations for Accounts Department against set operating standards. Regular bank/other reconciliations should be done monthly as per financial regulations.

13.19 Joint Water and Sanitation Sector Programme Support (JWSSPS)

13.19.1 General Standards Of Accounting And Internal Control

a. Accounting System

It was noted that the Programme uses Navision accounting package to compile its books of accounts and financial statements. There is need to streamline this accounting system to be compatible with the Government of Uganda Integrated Financial Management System (IFMS) so as to enable data sharing and timely data update. Differences in the accounting packages can stifle sharing of information between the two systems.

Management should consider streamlining the project accounting system to be compatible with the GoU IFMS.

Management explained that the Ministry of Finance, Planning and Economic Development is in advanced stages of piloting IFMS for projects, when the piloting has been successfully done then JPF will adopt.

b. Budget Performance/Analysis

A number of activities/outputs were planned to be achieved by management during the period under review. As a good practice, it is imperative for the project to carry out a consolidated budgetary analysis to monitor the progress of the planned activities and ensure effective budgetary control. It was however noted that management did not carry out the analysis during the year under review. This could have contributed to the budgetary overruns which were noted during the period, mainly under the Government of Uganda components.
Management should prepare consolidated performance analysis reports and reasons for variations should be provided.

Management promised to undertake the analysis in future.

c. **Advances Unaccounted for**

Para 215 of the TAI, 2003, requires that advances must be accounted for without delay. Para 214 (a) of TAI, 2003; requires that before approving an advance, the approving officer should make sure that the concerned officer/staff has settled any old advances. This is further amplified by Para 217 of the same regulations which states that advances not accounted for within 60 days from the date of payment, should be deducted from the monthly salary of the debtor and a new advance should not be given to anybody with unsettled advance. However it was noted that advances amounting to Shs.58,856,254 which were advanced to several officers for implementing various activities remained unaccounted for at the time of the audit as shown below:

<table>
<thead>
<tr>
<th>NAME</th>
<th>Amount advanced (shs)</th>
<th>Amount accounted for (shs)</th>
<th>amount outstanding (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mugabe Robert</td>
<td>47,513,000</td>
<td></td>
<td>47,513,000</td>
</tr>
<tr>
<td>Mulokozi Wills</td>
<td>6,890,000</td>
<td></td>
<td>6,890,000</td>
</tr>
<tr>
<td>Achom Jane</td>
<td>31,236,708</td>
<td>27,683,339</td>
<td>3,553,369</td>
</tr>
<tr>
<td>Lapyem Alfred (PDU)</td>
<td>700,000</td>
<td></td>
<td>700,000</td>
</tr>
<tr>
<td>Otim Jacob</td>
<td>199,885</td>
<td></td>
<td>199,885</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>86,539,593</strong></td>
<td><strong>27,683,339</strong></td>
<td><strong>58,856,254</strong></td>
</tr>
</tbody>
</table>

In absence of the accountabilities, I could not confirm whether the funds had been applied for the intended purposes.

Management should ensure that accountabilities are obtained and submitted for audit verification.
13.19.2 **Compliance With the Financing Agreement and GOU Financial Regulations**

**a) Non Payment of 15% WHT on non-resident consultancy services**

Section 121 of the Income Tax Acts/Law requires that 15% of the amount to be paid in respect of consultancies by a non-resident person should be withheld and the amount remitted to Uganda Revenue Authority. Section 124 further states that the withholding agent who fails to withhold tax is personally liable to URA for the tax which has not been withheld. On the contrary, management did not deduct withholding tax amounting to Euro 5,724 arising from the following consultancy contracts:

<table>
<thead>
<tr>
<th>Voucher no.</th>
<th>Amount (Euro)</th>
<th>Payee/consultant</th>
<th>Consultancy</th>
<th>WHT due (15%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0826</td>
<td>27,000</td>
<td>Dr Kerstin Danert</td>
<td>Preparation of the Ministry of water and environment sector performance report 2008/2009</td>
<td>4,050</td>
</tr>
<tr>
<td>0526</td>
<td>11,160</td>
<td>Ms Clara Rudholm</td>
<td>Support to MIS</td>
<td>1,674</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>5,724</strong></td>
</tr>
</tbody>
</table>

Failure to deduct the tax contravenes the relevant sections and could attract fines and penalties from the Uganda Revenue Authority. Management should ensure that withholding tax deductions are recovered and remitted to the Uganda revenue authority.

Management explained that the amount of Euro 1,674 for Ms. Clara Rudholm will be recovered from her outstanding payment still with the MWE on another contract and that a letter was written to Dr. Kerstin Danert requesting her for a refund of the Euro 4,050 and she has agreed to refund the amount within two weeks.
13.20 **Field Inspections**

(a) **Eastern Water And Sanitation Development Facility**

(i) **Overlap of roles**

Review of the Facilities operational Manual and the Ministry operations revealed that there is no clear-cut distinction in the roles played by the Departments of Rural Water, Urban Water, districts and the regional Water & Sanitation Development Facilities (WSDFs). The current status-quo is a recipe for duplication of roles especially in Rural growth centers which could affect the implementation of the project activities.

There is need to clearly draw lines of distinction in the roles played by the different groups at a sector level and to enhance sharing of information.

(ii) **Facility Structure**

Review of the operational manual revealed that the branch manager doubles as the sub-accounting officer with powers to authorize payments with no limitation. Review of the current Eastern facility structure revealed that the manager is at the level of acting senior engineer assisted by two engineers. With the Senior Engineer mainly involved in administrative work, this leaves no senior officer for field activities.

Besides, the sub Accounting Officer entrusted with GoU funding of over Shs.2 billion a year, is not a civil servant but a contractual staff.

The facility manager should be at a level of Principal Engineer, leaving the senior engineer to head the routine field work. In addition, the facility manager who acts as the sub accounting officer should be a civil servant bound by all civil service regulations.

Management explained that Ministry is presently carrying out a study on the Detailed Design of the Institutional Structure of the WSDFs which will inform the institutional requirements, functions, duties, tasks and responsibilities including
staffing requirements, qualifications and job descriptions. It is only after the consultancy is finalized that the Ministry will fully implement the staffing and any other recommendations.

13.21 **Water and Sanitation Development Facility - North**

(a) **Bank Reconciliation Statements**
A review of the preparation of bank reconciliation statements revealed that there was no independent check of the monthly reconciliations prepared by the Accounts Assistant. Failure to review the reconciliations could lead to delays in detecting errors, whether intention or otherwise, and possible loss of funds.

All monthly reconciliations should be reviewed by the accountant to ensure errors are promptly detected and appropriate action taken.

Management explained that bank reconciliations were not reviewed because the Facility lacked an Accountant at the time.

(b) **Statutory Deductions**
A total of shs.66,690,716 paid to Uganda Revenue Authority and the National Social Security Fund as Pay As You Earn (PAYE) tax and monthly NSSF staff contributions lacked acknowledgement receipts from the statutory bodies as detailed below:-

<table>
<thead>
<tr>
<th>CHQ</th>
<th>AMOUNT (shs)</th>
<th>PAYEE</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>000165</td>
<td>2,983,998</td>
<td>URA</td>
<td>PAYE</td>
</tr>
<tr>
<td>000166</td>
<td>1,812,113</td>
<td>NSSF</td>
<td>Staff contributions</td>
</tr>
<tr>
<td>000564</td>
<td>4,761,844</td>
<td>URA</td>
<td>PAYE</td>
</tr>
<tr>
<td>000535</td>
<td>29,197,780</td>
<td>URA</td>
<td>PAYE for September to March</td>
</tr>
<tr>
<td>000533</td>
<td>4,761,844</td>
<td>URA</td>
<td>PAYE for April</td>
</tr>
<tr>
<td>000532</td>
<td>2,765,000</td>
<td>NSSF</td>
<td>Staff contributions</td>
</tr>
<tr>
<td>000534</td>
<td>15,646,293</td>
<td>NSSF</td>
<td>Staff contributions</td>
</tr>
<tr>
<td>000908</td>
<td>4,761,844</td>
<td>URA</td>
<td>PAYE for June 2010</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66,690,716</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In absence of the acknowledgement receipts, I could not confirm that the amounts had been received by the bodies and utilized on intended purposes. It was further noted that the unit had some delays in remitting statutory deductions to the respective bodies which could lead to imposition of fines and penalties.

Management should ensure that the statutory deductions are remitted by the 15th of the month following payment in line with the statutory requirements and follow up be made to obtain the receipts.

(c) **Drilling of Production Wells**

Field visits and a review of the inspection reports revealed that production wells had not been properly located either with no proper access route or are within the road reserve. Such locations could affect the maintenance activities for the wells in the long run. The wells in question include the following:

<table>
<thead>
<tr>
<th>DWD NO.</th>
<th>District</th>
<th>Location</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>32139</td>
<td>Nebbi</td>
<td>Singla'B' ganda</td>
<td>No clear access route</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Source exposed</td>
</tr>
<tr>
<td>32141</td>
<td>Oyam</td>
<td>Kamdini Town</td>
<td>No clear access route, located within dwelling places. Source exposed</td>
</tr>
<tr>
<td>31171</td>
<td>Amuru</td>
<td>Pawato mero</td>
<td>Site not cleared</td>
</tr>
<tr>
<td>31170</td>
<td>Oyam</td>
<td>Alutkot</td>
<td>No clear access route and near a homestead</td>
</tr>
<tr>
<td>31174</td>
<td>Kitgum</td>
<td>Anyibi 2, Abakady</td>
<td>Within the road reserve</td>
</tr>
<tr>
<td>31173</td>
<td>Kitgum</td>
<td>Anyibi 1</td>
<td>No clear access and near a homestead</td>
</tr>
<tr>
<td>31166</td>
<td>Pader</td>
<td>Patongo 1</td>
<td>No clear access</td>
</tr>
<tr>
<td>31176</td>
<td>Pader</td>
<td>Akado</td>
<td>Within the road reserve</td>
</tr>
</tbody>
</table>
It was further observed that most of the wells are located within the communities and it is not clear whether the land has been secured for the facility to avoid interruptions.

The inappropriate location of the production wells could be a result of the inadequate supervision of the contractors during the implementation arising from lack of adequate technical staff on the ground to cover the whole programme.

Management should consider recruitment of more technical staff to enhance the supervision process and to ensure proper location of the wells. In addition, management should consider and assess the effects of the current locations of the wells to ensure that the facilities are not wasted.

13.22 **Eastern Umbrella For Water And Sanitation**

(a) **Cash Management**

The umbrella uses an imprest system of cash management through which funds are drawn from the account and subsequently advanced to officers to carry out activities.

The following matters were observed:-

(i) Despite running such a system, the entity has no safe deposit box for the proper custody of withdrawn cash. Besides, the premises are not guarded. This poses a risk of theft of the cash held in the offices.

(ii) The funds are withdrawn in either the Manager or the accountant’s names; however, the cash book does not reveal this detail, making it hard to know the imprest holder.

(iii) The entity does not maintain an imprest cash book to clearly track amount withdrawn, subsequent issue out and balances if any.
An imprest cash book clearly showing the cash movements and the balances should be put in place and an imprest holder appointed.

(b) **Operational Manual**
An operational manual provides detailed guidelines regarding an entity’s operations and acts as a reference for staff and other stakeholders. Interview with the umbrella staff revealed that despite existence of the entity for a long time, no operational manual had been developed and circulated. Having no documented manual complicates the management/administration of the unit’s operations.

13.23 **South Western Umbrella For Water And Sanitation**
(a) **Prepayments**
It was noted during the audit, that the facility makes payments ahead of service delivery with no advance payment or performance guarantees. A case in point was a payment of Shs.14,310,000 to M/s High lands Hotel on the 17th March 2010 for hosting a training workshop on the 23rd March 2010. There is a risk, that the vendor may fail to provide the service and also fail to refund the money and this could result into legal challenges.

The entity should only pay after a service has been provided or against an advance payment guarantee. Alternatively, to confirm commitment for need of goods or services a Local purchase order can be issued.

(b) **Pay roll calculations**
Review of the payroll schedules revealed erroneous calculation of gross pay, PAYE, social security deductions and ultimately net pay. The employer’s social security contributions were added on to the gross pay for subsequent calculation of PAYE and NSSF contributions. This had the effect of overstating the tax and the NSSF contributions and diminishing the employees pay. In other instances, the employer’s contribution was added twice, leading to an erroneous increment in salary.
Recalculation of the same revealed that these omissions led to a financial loss of Shs.5,930,856 to the project. The staff responsible for the payroll preparation should be properly trained to avoid such occurrence of such irregularities. In addition, recoveries of the over payments to the concerned staff should be made.

Management explained that Umbrella has been directed to liaise with both URA and NSSF with a view of offsetting the payments from future obligations of staff and the organisation.

(c) **Duplication of Allowances**
Subsistence allowances are meant to cater for ones lodging, meals and other incidentals. It was however noted that in two instances subsistence allowances were paid to the executive committee members at GoU rates and yet the entity went ahead to provide all meals to the same participants over the same days. This resulted into duplication of allowances and caused a financial loss of Shs.1,300,000.

Management should adhere to the government standing instructions in future transactions.

(d) **Vehicles**
The entity has 3 vehicles, two of which have a mileage above 200,000 km. Given the vast area of coverage and the location of their offices, the umbrella staff have to move over very long distances to reach their clients. With such old vehicles the movement is constrained by numerous vehicle break-downs and indeed in the period under review, vehicle repairs have taken up a large proportion of the total budget. There is an urgent need to have the vehicles replaced.
Management explained that given the limited funding available to the umbrella organization it is not possible to respond to all needs of the organization i.e. replacing the vehicles.

13.24 **Mid Western Umbrella For Water And Sanitation**

**Irregular Procurement of goods and services**

Review of the procurements made in the year indicated that most of them were direct procurements from similar suppliers and yet the amounts were significant. For instance, most procurements of stationery were from M/s ESTMU Ltd and Plumbing materials were from M/s MULSTAR Enterprises. There was no justification as to why the procurements were limited to only a few suppliers. In absence of competition, the entity might be procuring at excessively high prices. In addition to the continued direct procurements from the same supplier, present a risk of connivance to defraud the organization. The entity should adopt the GOU procurement guidelines, which encourage healthy competition among suppliers.

**14.0 EDUCATION AND SPORTS**

**14.1 Cash and Cash Equivalents**

According to the financial statements, the Ministry expenditure account (TGA) closed with an overdrawn position of Shs.240,416,874. However, the general ledger reconciliation detail report attached to the financial statements reflected a cash balance of Shs.5,089,177. The report indicated payments that had not been reconciled totaling to Shs.311,692,782 and errors totaling to shs.267,308,338 which had not been resolved. In addition, the certificate of bank balance supporting the bank statement balance in the reconciliation report was also not availed. I was therefore not able to confirm the accuracy of the cash balance disclosed in the financial statements.

I advised the Accounting Officer to investigate the outstanding items in the reconciliation and take appropriate action.
14.2 **Unsupported Transfer Of Funds**

Records show that a total of Shs.1,745,541,996 was transferred to the Royal Netherlands Embassy account vide EFT 1629980 towards the end of the year under review. However, documents supporting the transfer were not availed for audit. I was therefore not able to establish the purpose of the transfer.

The Accounting Officer explained that the above funds were transferred to the above account for safe custody pending delivery of P1 and P2 English and Mathematics thematic materials that were actually done in August, 2010.

However, in absence of supporting documentation, I was not able to establish whether the funds were utilised for that purpose. Hence the amount remains unaccounted for.

I advised the Accounting Officer to refrain from transferring funds that should be returned to the UCF to other accounts.

14.3 **Remittances For Students Abroad Not Accounted For**

It was noted that a total of Shs.574,767,247 remitted by the Ministry to students studying abroad was not properly accounted for. The funds were channeled either through the students’ leaders’ bank accounts or through accounts of Embassies/High Commissions. However, there was no evidence that the funds reached the intended beneficiary students and/or institutions.

The Accounting Officer explained that the embassies had been requested to send proof of funds having been received by beneficiaries in addition to their students’ leaders’ acknowledgements.

I advised management to always obtain proof of receipt of funds by all the beneficiary students.
14.4 **Over Expenditure**

It was noted that the Ministry paid domestic arrears amounting to Shs.902,386,604 during the year under review against a budgetary provision of Shs.266,666,667, hence resulting into an over expenditure of Shs.635,719,937 as per the audited balances of Statement of Appropriation Account Based on Services Voted by Parliament. The over expenditure was not supported by virements of re-allocation warrants contrary to regulations. Over expenditure indicates lack of proper planning and/or weaknesses in controls over budgetary expenditure.

The Accounting Officer explained that the over expenditure arose from payments made against the previous year’s budget whose EFT payment were cleared in July of the year under review.

I have however advised that under the cash basis of accounting any payments made in the current year are chargeable against the appropriation for that year.

14.5 **Project Accounts**

The certificates of bank balances supporting the bank reconciliation statements for the project accounts balances disclosed in the financial statements were not presented for audit. The bank reconciliation statement for the Royal Netherlands Support to Education account 213.213026.1 showed that a total of Shs.200,000,000 wrongly debited on the account remained un-refunded by the close of the year without explanation.

It was also noted that the following project bank balances were omitted from the schedule of project balances attached to the financial statements:-
<table>
<thead>
<tr>
<th>Project Account Number</th>
<th>Project Name</th>
<th>Cash book Balance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>213.213023.1</td>
<td>Upgrading of 5 PTCs to Core PTCs</td>
<td>456,762,009</td>
</tr>
<tr>
<td>213.213024.1</td>
<td>Rehabilitation of 22 Non Core PTCs</td>
<td>1,058,707,563</td>
</tr>
<tr>
<td>213.213033.1</td>
<td>Commonwealth association of Learning</td>
<td>2,586,113</td>
</tr>
<tr>
<td>213.213049.1</td>
<td>World Bank Support to Post Primary Education Training Project</td>
<td>1,345,284,188</td>
</tr>
</tbody>
</table>

This implies that the cash position disclosed in respect of various projects is not complete and accurate.

I advised the Accounting Officer to ensure that all project balances are always fully disclosed in the ministry financial statements.

14.6 Unconfirmed Transfer Of Funds To Treasury

A total of Shs.410,758,634 was reportedly transferred to Treasury in respect of Gross Tax during the year under review.

However, the remittance was not supported by acknowledgment receipts from Treasury. I was therefore not able to confirm that the transfers were actually received on the consolidated fund account.

The Accounting Officer explained that the receipts in question had not yet been obtained from Treasury.

I advised the Accounting Officer to follow-up the receipts with Treasury.

14.7 Unspent Cash Balances Not Transferred To Treasury

Unspent cash balances at the end of the previous financial year totaling to Shs.406,604,127 were not returned to the Consolidated Fund during the course of the year contrary to the Public Finance and Accountability Act, 2003.
Management was advised to ensure that all unspent funds are refunded to the UCF within the stipulated time as required by law.

The Accounting Officer explained that the previous year’s Treasury General Account was actually overdrawn as a result of the unreleased salary that made the account to remain until action is taken by the Treasury.

14.8 **Vacant Posts**

According to the establishment register, the ministry has a total of 351 approved posts. However, it was noted that during the year under review a total of 130 posts were vacant. Failure to have all the approved posts filled impacts on staff performance as some staff members could be overstretched with responsibilities which are beyond their schedule of duties. It also has a negative effect on service delivery.

Management was advised to liaise with the Ministry of Public Service to have all the vacant posts filled.

Management explained that by December 2010 they had registered some progress in filling of various posts.

14.9 **Non-recovery of Borrowed Funds**

A total of Shs.460,364,000 was lent to the World Bank Support to Post Primary Schools project from the Development of Secondary Education project which is run on the Ministry’s TGA account vide EFT number 1582993. The funds were meant to cater for evaluation of USE Text books. However, no recovery had been made by the time of writing this report.

Failure to recover the borrowed funds implies that some activities meant to have been undertaken under the Development of Secondary Education Project were not implemented.
I advised the Accounting Officer to ensure that the funds in question are refunded.

14.10 **Procurement of Vehicles (Contract 3003)**

14.10.1 **Procurement of a Station Wagon for the Department of Secondary Education**

A review of the procurement file for a Station Wagon for the Department of Secondary Education revealed the following documents were missing from the file:

- PP Form 20
- Solicitation document issue form.
- Bid receipt & opening form.
- Copies of bids.
- Bid acceptance
- Contract

In absence of the above documents, I was not able to establish as to whether the procurement complied with the PPDA Act and Regulations.

I advised the Accounting Officer to have the documents traced and to also ensure that all procurement files are always properly maintained in accordance with the procurement regulations.

14.10.2 **Supply of two Double Cabin Pickups, one 50-Seater Bus and five Station Wagons**

A review of the procurement file for the above mentioned vehicles, revealed the following anomalies:-

- The procurement for the bus was approved by the Ministry Contracts Committee (MCC) before confirmation of availability of funding as per the PDU’s letter to the user department dated 23rd March, 2010 and the subsequent user department letter to the PS dated 24th March, 2010. Similarly, confirmation of availability of funding for the double cabin pickups
was made after approval of the award as per the PDU’s letter to the user department dated 30th March, 2010.

- The LPO for the Station Wagon was issued on 10th April 2010 after delivery of the vehicle on 17th March, 2010 as per invoice dated the same day. The LPO for the bus was issued on 21st June, 2010 after completion of the building of the bus as per the supplier’s letter to the PS requesting for its inspection dated 27th May 2010.

- The card for the Station Wagon number UG 2120E showed that, its sitting capacity was five with tyre size 16 as opposed to the seating capacity of (7-8) and tyre size 17 specified in the bidding document.

- The agreements for the other vehicles apart from the bus were not availed for examination.

The above anomalies indicate that the procurement did not fully comply with the regulations. This can affect achievement of Value for money.

I advised the Accounting Officer to always ensure full adherence with the procurement law.

14.10.3 **Printing P4 & P5 Teaching And Learning Materials**

A review of the procurement file for the procurement of teaching and learning materials, revealed the following anomalies:-

- An addendum that substantially changed the original requisition was placed in the media on 16th October, 2009. However, the bid submission date remained 26th October 2009 implying that the advert and bidding period totaling 26 working days were not adhered to.

- There were several inconsistencies noted in the dates of several correspondences on file as explained below:-

  - Although the PDU requested for the approval of the evaluation committee on 4th December, 2009, the same PDU claimed to have written to the approved members on 5th November, 2009, with the expected reporting date of 11th November, 2009.
- It was also noted that although M/s NEW VISION and M/s PICFARE had made partial deliveries by 10th February 2010 as per the Contract Manager, this was before entering into contract with the Ministry, which was done on 22nd February 2010.
- PP Forms 20 were raised after award of contracts.
- LPO No.00142569 to M/S INTERSOFT was issued on 22nd June 2010 after delivery of the goods which, had been done between 16th February 2010 and 31st May 2010.

- There are 12,313 schools in the Ministries database. The captioned price of Shs.824,116,226 was for printing three copies for 17,000 schools (i.e. 51,000 copies of various documents). However, since the number of schools was inflated from 12,313 to 17,000 excluding other stakeholder beneficiaries who were estimated to be 500 by the requisitioning department, it implies that the expenditure of Shs.67,658,326 was in respect of supplies which may not have been required, (i.e. $824,116,226/(17,000 \times 3) \times [17,000-(12,313+500)]$).

- By 23rd June 2010, all goods had reportedly been delivered to NCDC. However, evidence of receipt of the materials by the beneficiary schools had not been availed for audit verification by the time of writing this report in March 2011.

The above anomalies indicate that management did not fully comply with the requirements of the PPDA Act and Regulations. In his written response the Accounting Officer stated that the requisition by the user was slightly more than the database numbers to cater for any loses in the transit and handling at school level.

I advised the Accounting Officer to provide the necessary documents to confirm delivery of the books and always ensure full adherence with the procurement law.
14.11 **Staffing**

A review of the internal audit reports revealed that the following matters raised in relation to human resource management were still outstanding by the time of audit in November 2010:-

(a) **Non confirmation of staff who completed the probationary period**

On examination of a sample of 250 personal files, it was observed that some staff have been on probation for more than the mandatory period of two years without any action taken on them and with no relevant appraisal forms duly filled. Cases in point included the following:-

<table>
<thead>
<tr>
<th>Names</th>
<th>Titles/Position</th>
<th>Date of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPEERA MARK</td>
<td>DRIVER E/2/2002</td>
<td>30th-JUNE-1999</td>
</tr>
<tr>
<td>MUDOLA PAUL .H</td>
<td>INSTRUCTOR</td>
<td>16th-DEC-1991</td>
</tr>
<tr>
<td>EJURU AMINA</td>
<td>STORE ASSISTANT E/2/2002</td>
<td>23rd NOVEMBER-2004</td>
</tr>
<tr>
<td>KIZZA CHARLES</td>
<td>K/2/1215</td>
<td>25th-JANUARY 2000</td>
</tr>
</tbody>
</table>

The Accounting Officer was advised to have all staff confirmed and appraised regularly in accordance with the Standing Orders.

(b) **Staff acting after expiry of the mandatory period**

A review of the staff list against the establishment revealed that most of the heads of departments had been in acting position for more than the mandatory period of six months. Standing orders Chapter 1 section 15(1) provides that any period of acting appointment beyond six months will be null and void and the officer holding such an appointment shall automatically revert unless the appointing authority extends the appointment for another period of six months and the exercise is repeated at six monthly intervals thereafter should this still be necessary. The Department of Private Secondary did not have a single position filled.
I advised the Accounting Officer to follow-up the filling of the vacant posts with the responsible authorities.

(c) **Continued payment of salary to staff who left the ministry**
Examination of the staff list also revealed that two of the staff had left were still appearing on the payroll. A case in point is Mr Denis Ojuk a lecturer at Aduku UCC who got appointment with Abim district local government as the procurement officer since 2006 but has been drawing salary up to date. The table below shows a sample of the salary drawn in 2010:-

<table>
<thead>
<tr>
<th>Months</th>
<th>Amount (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>429,941/=</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>429,941/=</td>
</tr>
<tr>
<td>MARCH</td>
<td>429,941/=</td>
</tr>
</tbody>
</table>

The salaries drawn should be recovered in accordance with regulations.

(d) **Overpayment of Salary**
Mr. Bagombeka Samuel (file number B/3981) was appointed on 7th March 1997 on probation as Grade V teacher scale U5c-b, and subsequently posted to Kiryasaaka S.S Masaka. Review of his personal file revealed that, he was later posted to Kitabi Community Polytechnic as a caretaker senior lecturer scale U3 pending his substantive appointment to that position by the Education Service Commission. In September 2004, he was posted to Tororo UCC as a lecturer scale U4 lower. Since then, Mr Bagombeka Samuel has continued to draw salary of Shs.1,239,719 instead of Shs.558,923 giving a difference of Shs.680,796 for 67 months which translates into an over payment of Shs.45,613,332.

The over payment should be recovered in accordance with the regulations.
14.12 **Support to The Post-Primary Education and Training (ADB III) Project (ADB GRANT NO.2100155006268)**

(a) **Government of Uganda Counterpart Funding of Directorate of Industrial Training (DIT)**

According to the ADB funding guidelines, the GOU was supposed to make a 10 per cent co-funding to ADF financing of the Directorate of Industrial Training (DIT) activities. However it was noted that the transfer of US$. 88,114.96 (equivalent to Shs. 179,723,918) from the special account to DIT, was not matched with a corresponding GOU counterpart funding of U Shs. 17,972,392. Failure to provide the agreed co-funding does not only contravene the guidelines but also affects the implementation of the planned activities. Management should ensure that the GOU obligations are met as per the guidelines to enable the implementation of the agreed activities.

Management explained that the Ministry had programmed these resources under the Project for Quarter III financial year 2010/11 to be transferred to the DIT to finance the activities as per its work plan. I await this action.

(b) **Budget performance Grant**

A review of the cumulative receipts for the project indicated that the cumulative grant disbursements as at 30\textsuperscript{th} June 2010, were UA.11,374,478.57 out of the grant amount of UA.20,000,000.00. This represents a performance of 57 per cent, yet 75 per cent of the project period had elapsed as at that date. This reflects a relatively slow progress in the grant utilization and may necessitate extension of the project period and therefore additional administrative costs. Management should expedite the process of project implementation.

Management explained that the Project was on track as the disbursements compared favorably with the appraisal programming of 75% as at the end of fourth year (31\textsuperscript{st} December, 2010) disbursement effectiveness.
(c) **Expenditure on Generator Fuel**

The project rented offices in the Social Security House managed with each tenant paying for their separate utility bills. The caretaker management had put in place a generator to be used for the entire building to cater for power failures from the main grid. Under this arrangement the project was supposed to pay a flat monthly contribution of Shs.387,324 leading to a total of Shs.4,647,888 paid during the period for the services irrespective of whether the services were offered or not. It was noted that the determination of the rates for the services was not clear and could be subject of abuse. Management should review the arrangement with the caretaker to ensure that amounts are paid for the services rendered.

Management explained that the Ministry would liaise with the Uganda Land Commission to address this anomaly in the tenancy agreement.

(d) **Field Inspections**

A field inspection exercise for the schools covered under the project was also undertaken during the audit. The following matters were observed:

(i) **Stock piles of finished equipments**

During our inspections, stock piles of finished items were observed and there appears to be no strategy for the unit to market the produced items which could make it fail to realise self reliance. This could render the support from the project ineffective as the intended objectives of the intervention may not be realised.

| Assorted scholastic materials produced at the work shop |
Management explained that the Ministry, in liaison with ADB engaged the services of a consultant to develop a business plan which would help in assessing how STEPU would be structured in a sustainable manner. The process was still ongoing.

(ii) **Schools and Vocational Technical Institutes**

**Design Short Falls**

- **Fencing**
  
The only security provisions constructed at the various schools and technical institutes were gates and gate houses with no fencing which should have offered extra security for the expensive equipment, laboratory reagents and text books supplied under this Programme. Although it was anticipated that the schools would contribute in form of planting hedges all around, this was not complied with. This left the schools infrastructure easily accessible to intruders and hence susceptible to thefts.

  Management explained that the design for the schools catered for a chain link fence. However, due to budget constraint the fence was omitted.

- **Toilet Facilities**
  
  In some Seed Schools, it was noted that the Staff houses were not provided with their own toilets indicating that the Staff and their families had to share facilities with the Students which apparently appears unethical. The worst case scenario is that of Madera Technical Institute – Soroti which had a provision for only a two stance toilet and two bath rooms to cater for seven workshops intended to accommodate 300 Students, 15 Teachers and 6 Workshop Assistants for at least 6 hours daily. Further, the total depth of the pit latrines was established to be only fifteen feet which raised doubts as to whether they would serve for a long period given the ever rising population of the intended users. There is need to revisit the designs and adequately provide for the necessary facilities.

- **Teachers’ houses**
It was noted that contracts did not provide for the following facilities:
- Ceiling
- Wardrobe fittings despite provision of wardrobes in head teacher’s houses.
- Floor tiles.
- Wire mesh for ventilators for prevention of mosquitoes.
- Burglars proof.
- Pit latrine / toilet at Kigezi college Butobere.
- Wardrobes in non teacher’s houses.

- **Burglar Proofing for the Laboratories**
  It was noted that there was no provision for burglar proof yet these laboratories will be equipped with expensive fittings, equipment, and chemicals.

- **Administration block at Rukungiri Technical Institute**
  The above block that will house the principal, Deputy Principal and bursar’s offices, and the general staffroom, store and a library was not provided with burglar proofing.

(iii) **External Works at Rukungiri Technical Institute**
  It was noted that external works at Rukungiri Technical Institute were phased out due to insufficient funds. However, this could leave the structures exposed to the effect of rain and could affect their life span. It was further observed that the site for the structures is threatened by storm water but no provision was made to have drainage channels to avert the threat.

(iv) **Stores Management for the Lab Reagents, Equipment and Text Books**
  The procedures normally observed on receipt of items into Stores are as indicated below:
  - The recipient inspects the items to confirm that they conform to the specifications before endorsement of the delivery documents.
• The items are taken on the Ledger charge under the respective folios by indicating the date of receipt, supplier and quantity received.
• Items in their respective categories are kept together in clearly demarcated and tidy shelves.
• Movement of items from the Stores should only be on the basis of duly authorized stores requisitions which shall be posted to the credit side of the respective ledger folio depicting particulars of issue.
• On a regular basis, the Head of the School conducts stock taking to confirm existence of items recorded.

Throughout the Schools visited, it was noted that the procedures stated above were not observed in their entirety for reasons which could not easily be ascertained. For instance:-

Management was advised to institute adequate control measures to ensure that these items are properly secured.

Management explained that the Department of Secondary Education would issue a circular to effect control measures to ensure the goods supplied to the schools were properly secured.

(v) **Jinja Vocational Training Institute**
The following matters were observed during a visit to the Institute:-
• The percentage of completion of the total works that started on 1\textsuperscript{st} December, 2009 and expected to be completed on 1\textsuperscript{st} December, 2010, stood at 50 per cent at the time of inspection.
• The ICT Centre which was among the structures completed so far was being used as Administration Block contrary to the intended purpose.

14.13 **Support to Post-Primary Education and Training Expansion and Improvement (ADB Education IV) Project (ADB Loan No. 2100150018143)**
(a) **NSSF Contributions**
Section 11 of the National Social Security Fund Act requires that an employer makes a standard contribution of 10 percent which should be remitted to NSSF along with the 5 per cent employee contribution, by the 15\(^{th}\) day following the end of the month a payment is made to an employee. On the contrary, the Project did not make any such contributions to NSSF yet the employees are eligible in line with section 6 of the same Act. Failure to make contributions could result in fines and penalties by the Fund.

Management should ensure adherence with the Act to avoid a possibility of paying penalties.

Management explained that the Ministry of Education and Sports would in liaison with the Ministry of Finance, Planning and Economic Development provide resources for the employer contribution of 10 per cent to be remitted along with the 5 per cent employee contribution as required by Section II of the National Social Security Fund Act.

(b) **Delayed Remittance of Taxes**
The Income Tax Act 1997 requires that PAYE tax should be remitted to the tax body by the 15\(^{th}\) day of the month following the month when payment was made. Contrary to the above it was noted that there were delays in remittance of the tax of between 1-4 months as shown below:

<table>
<thead>
<tr>
<th>Period/ month</th>
<th>Date remitted</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>14(^{th}) December 2009</td>
<td>4 months delay</td>
</tr>
<tr>
<td>August</td>
<td>14(^{th}) December 2009</td>
<td>3 months delay</td>
</tr>
<tr>
<td>September</td>
<td>14(^{th}) December 2009</td>
<td>2 months delay</td>
</tr>
<tr>
<td>October</td>
<td>15(^{th}) January 2010</td>
<td>2 months delay</td>
</tr>
<tr>
<td>November</td>
<td>15(^{th}) January 2010</td>
<td>1 month delay</td>
</tr>
</tbody>
</table>
This can attract penalties from URA. Management should desist from such delays as they may attract penalties from the tax body.

Management explained that the Project has been effecting the PAYE on bi-annual basis. But following the advice, the Project would pay PAYE to the tax body by the 15\textsuperscript{th} day of the month following the month when salary payment was made.

(c) **Lack of Acknowledgement Receipts**

It was noted that the following payments amounting to Ushs.226,238,760 made to Uganda Revenue Authority in lieu of PAYE deduction from staff salaries were not supported by official acknowledgement receipts from the tax body:

In absence of the receipts I could not confirm that the amounts were received by the tax body. Management should obtain and avail the receipts for audit verification.

Management explained that the Ministry was in liaison with the tax body to obtain the official acknowledgement receipts as evidence that PAYE deductions from staff salaries were remitted to it.

(d) **Audit Inspection of Post Primary Institutions**

The audit exercise also included an inspection of a number of Post Primary Institutions under the Ministry of Education and Sports. The common findings included the following:

- Underfunding; the institutions were funded at a rate of Shs.1,500 per student per day that was revised to only Shs.1,800 w.e.f 2010/2011. Most institutions inspected reported that the rate was too little to cover the cost of feeding, accommodation utilities and health care.
- Delayed release of funds
- Understaffing with regard to both academic and support staff.
- Poor/dilapidated Physical Infrastructures
- Advances un accounted for
- Incompletely supported expenditures
- Failure to adhere to procurement guidelines
- Poor book keeping standards
- Absence of evidence of ownership of land
- Congested students’ dormitories
- Failure to avail books of account and therefore limiting the audit scope
- None maintenance of accounting books
- None production of final accounts
- Doubtful delivery of procurements
- Failure to pay for utilities (electricity and water)

The detailed reports are summarized as follows:

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bulera Core PTC</td>
<td>There were no personal files for staff who were paid wages and salaries amounting to shs.3,820,000 during the year under review.</td>
</tr>
</tbody>
</table>
| 2. St. Augustine PTC - Butiti | • Procurement of goods worth shs.29,274,260 was made without LPOs contrary to regulations.  
• There was poor physical infrastructure as shown below:- |

This building may soon collapse unless urgent renovations are undertaken.  
This is the girls bathroom.
<table>
<thead>
<tr>
<th>3</th>
<th><strong>Fort Portal School of Clinical Officers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Inadequate Infrastructure because the school meant to accommodate 120 students, accommodates 425 students due to the ever increasing demand for the course. The canteen is grass thatched (refer to the photograph below) while the dining hall lacks furniture and students take food from their hostels.</td>
</tr>
<tr>
<td></td>
<td>• The school has a coaster bus that had reportedly been grounded for the last 10 years without maintenance or consideration for boarding off. Given that there is another old mini-bus, the grounded one may be cannibalized and hence reduce its realizable value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th><strong>Uganda Technical College Kichwamba</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Inadequate Infrastructure that has led to Some female students being accommodated in teachers’ quarters.</td>
</tr>
<tr>
<td></td>
<td>• Electricity supply had been disconnected for over two months due to failure to settle an outstanding bill of shs.65,000,000.</td>
</tr>
<tr>
<td></td>
<td>• The Institution did not have title to the land where it is sitting that is estimated to be approximately 83 acres.</td>
</tr>
<tr>
<td></td>
<td>• As a result, encroachment by a permanent residential structure and a private primary school was reported</td>
</tr>
<tr>
<td></td>
<td>• Out of the 60 staff, 42 were locally hired and paid locally from the college’s meager resources.</td>
</tr>
</tbody>
</table>
• There were no valuation report supporting the reported land compensation of shs.10,582,300 from UNRA for a portion of land encroached by the construction of FortPortal - Bundibugyo road.

• M/S. Entebbe Builders and Decorators was contracted to build two students’ hostels under the Presidential pledge at a cost of shs.156,632,374 commencing on 3rd March, 2009. Although the expected completion date was 31st August, 2009, more than one year after the expected completion date, the hostels were still stalled at roofing level. A total of shs.113,115,977 had so far been paid to the contractor.

5 Bundibugyo PTC

- The College did not have title to the land where it is sitting that is estimated to be approximately 3.5 acres. The size of this land is quite small according to the demands of such a college implying that there was urgent need to acquire more land to enable the college grow and expand. This would also ensure that the college gets sports grounds and space for construction of teachers’ quarters.

- The College did not have an administration block and the library was turned into offices for the Principal and the Bursar.

- The students’ dormitories were congested as a result of growth of the student population from the originally planned 200 to the current 300.

- The College did not have enough beds and half the number of students slept on the floor.

- The College did not have a dining hall and was using a mud and wattle structure as a dinnig hall.

- The establishment for teaching staff provides for 18 staff. However, only 11 were available leaving a gap of 7.

6 St Joseph Technical College Kyarubingo

- The School was in dire need of extra office accommodation, hostels, classrooms and pit latrines. The School also lacked a library and books plus workshops for Tailoring, Shoe making and Agriculture.

- Out of the 23 teaching staff, only 8 were on the Government payroll and the rest were being paid from local revenue which was quite meager.

7 Ibanda Core PTC

- Although the teaching staff establishment provides for 21 staff, there were only 9 leaving a gap of 12.
Similarly out of the 20 non teaching staff, only 14 were available leaving a gap of 6.

- Shs.8,533,879 reportedly paid out to carry out various official activities had not been accounted for by the time of audit in November 2010

| 8 | Bushenyi Core PTC | The College did not have adequate accommodation for the students. 400 students were being accommodated in facilities meant for 200 students. This had resulted into 4 students being squeezed into a cubicle.  
- The college was understaffed by 25 staff.  
- The College was indebted to the tune of shs.44,798,988 by the end of the year under review. |

| 9 | Bushenyi Technical College | The College had not surveyed its land and did not therefore posses its title.  
- The College lacked Office accommodation. The existing administration block constructed way back in 1959 was leaking.  
- The College lacked a Store Keeper, Nurse, Caterer and an Askari.  
- Although the College had a Contracts Committee, it had never sat since it was put in place in 2007. The contractors sourced in 2006 by the old Committee were the ones still being used. |

| 10 | Bishop Stuart Core PTC Kibingo. | The College had not surveyed its land and did not therefore posses a land title.  
- The College lacked Office accommodation. The existing administration block constructed way back in 1959 was leaking.  
- The College lacked a Store Keeper, Nurse, Caterer and an Askari.  
- The College was understaffed by 18 staff  
- Although accounting regulations require the maintenance of proper books of account, cashbooks were not maintained during the year under review  
- Shs.5,540,000 paid to various staff to carry out |
various activities irregularly remained un-accounted for by the time of audit

|   | 11 Ngugo Technical School | • The school lacked storage facilities for both food and equipment.  
|   |                       | • Some students were squeezed in a small house that was formerly the residence of the head teacher.  
|   |                       | • The school did not have electric power and the solar power unit had broken down. A small generator was reportedly used for about 2 hours in the evening. Lack of power means that the school cannot train its students effectively.  
|   |                       | • The school truck had reportedly been grounded since 2004 without any action for either repair or disposal making its realizable value to continue diminishing.  
|   |                       | • The reported cash procurement of tools and equipments worth shs.7,810,000 through a staff seemed doubtful. This was due to presentation of accountability showing that the requisition, payment voucher and the Kampala based supplier’s invoice and receipt, and the receipt of goods at the school were all done on 8th June 2010.  
|   |                       | • Documents relating to the construction of two workshops for shs.135,000,000 together with the cash analysis book for January to December 2009, bank statements for the same period, procurement records, payment vouchers and vote books had been taken by the IGG  
|   | 12 Kabale NTC | • The buildings were very old and majority of them were still roofed by asbestos sheets that were declared unfit for human habitation  
|   |                       | • Where as the establishment provides for 72 teaching staff, only 51 staff were available resulting into a gap of 21. In addition, out of the 34 non teaching staff provided for, only 23 were available leaving a gap of 11.  
|   |                       | • The audit of the stores revealed that although the College employed a Store Keeper, he was not  

receiving the goods but only instructed to write the GRNs rendering the actual delivery of such goods to stores to appear doubtful. The receipt and maintenance of stationery records was reportedly handled by the Principal’s Secretary. This may have been the reason why some items were recorded as received before delivery and those worth shs.45,411,850 not having been posted to the stores ledger

<table>
<thead>
<tr>
<th>13</th>
<th><strong>Kabale School of Comprehensive Nursing.</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The School’s approved establishment structure provides for 20 posts. However, only 4 were filled and on Government payroll resulting into a staffing gap of 16 staff that the school had tried to bridge by hiring locally using it’s internally generated funds.</td>
</tr>
<tr>
<td></td>
<td>• The examination of vouchers revealed that payment vouchers worth shs.11,425,000 were not accompanied by supporting documents as required by the regulations.</td>
</tr>
<tr>
<td></td>
<td>• <strong>Failed Investment – Shs.215,888,290</strong></td>
</tr>
<tr>
<td></td>
<td>The school purchased a 67 seater Isuzu bus in October 2008 through a finance lease repayable in 6 months installments up to November 2012. The school planned to use the bus for public transport on the Kabale – Kampala route and for part of the revenue to be used in repayment of the finance lease. However, by the time of audit over two years after registration of the bus, the Transport Licensing Board had not yet issued a PSV license to the bus rendering the investment a failed one because the bus was depreciating in value and not earning any revenue. This implies that the school was not using the planned revenue from the bus to settle the lease funding but fees meant for academics and welfare. The above investment seemed to have failed because of failure to conduct investment appraisal before committing the school, venturing into the school’s non-core business and non-approval of the loan as required by the law. By the time of audit, the school had repaid shs.138,350,541.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>14</th>
<th><strong>UCC Kabale</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• College did not maintain a site record for materials procured for construction of lecture rooms using force on account that had so far been funded to a</td>
</tr>
</tbody>
</table>
tune of shs.389 million by the Ministry. It was therefore difficult to confirm that all materials paid for were actually delivered and used for the construction.

<table>
<thead>
<tr>
<th>15</th>
<th><strong>Nsamizi Training Institute of Social Development</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Examination of expenditure vouchers revealed that expenditure totaling to shs.38,720,000 was not accompanied by supporting documents. It was therefore difficult to establish whether the funds were spent on the intended activities.</td>
</tr>
<tr>
<td></td>
<td>- Institute's balanced budget of shs.2,510,730,000 for the year under review was not approved by the Minister as required by Section 90 of the universities and other tertiary institutions act, 2001.</td>
</tr>
<tr>
<td></td>
<td>- Institute is on 103 acres of public land of the former Mpigi District Farm Institute whose title was presumably with the District. Although the district authorities agreed that the two institutions co-exist on the land, it is ideal that they split the land and each obtains a title.</td>
</tr>
<tr>
<td></td>
<td>- Institute had expanded greatly and was now offering a BA Social Work and Social Development degree affiliated to Makerere University. This expansion had resulted into increased procurement activities that required the recruitment of a procurement specialist.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>16</th>
<th><strong>Jinja School of Nursing and Midwifery</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- A total of shs.20,868,000 was paid out in respect of hire of accommodation for boys. However the following observations were made:-</td>
</tr>
<tr>
<td></td>
<td>i) There was no evidence that proper procurement procedures were followed in acquiring the properties.</td>
</tr>
<tr>
<td></td>
<td>ii) A copy of the evaluation report used in determining the rental value was not availed.</td>
</tr>
<tr>
<td></td>
<td>- NW&amp;SC did not acknowledge receipt of shs.2,000,000 reportedly paid to it against cheque 568627.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>17</th>
<th><strong>Ophthalmic Clinical Officers School - Jinja</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Management had not collected school fees worth shs.4,053,500 from three private students</td>
</tr>
</tbody>
</table>
| | - The school had only the Principal on Government
<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Jinja Medical Laboratory Training School</td>
<td>• Only shs.5,100,000 out of shs.9,800,000 withdrawn against cheque 5257 for remittance to Mulago, Lacor and Mengo hospitals as student bench fees had been accounted for leaving shs.4,700,000 unaccounted for by the time of audit.</td>
</tr>
<tr>
<td>19</td>
<td>Uganda College of Commerce Tororo</td>
<td>• A total of shs.14,830,900 paid to staff to cater for various costs irregularly remained unaccounted for by the time of audit</td>
</tr>
<tr>
<td>20</td>
<td>Tororo Cooperative College</td>
<td>• A total of shs.27,007,000 advanced to various staff to cater for various costs irregularly remained unaccounted for by the time of audit</td>
</tr>
<tr>
<td>21</td>
<td>Mbale School of Hygiene</td>
<td>• WHT worth shs.996.750 reportedly remitted to URA vide cheque 5699 lacked an acknowledgement receipt</td>
</tr>
<tr>
<td>22</td>
<td>Mbale School of Clinical Officers</td>
<td>• The procurement of 180 clinical coats worth shs.6,128,800 paid for against cheque 5659 was irregularly made without issue of an LPO.</td>
</tr>
</tbody>
</table>
| 23 | Nyondo PTC – Mbale | • There was no evidence of remittance of WHT totaling to shs.4,237,548 to URA  
• The procurement of food stuffs worth shs.82,083,150 seemed doubtful due to the non maintenance of a stores ledger to record its receipt and issue  
• The reported payment of shs.2,500,000 to UMENE vide cheques 5702 and 5849 lacked acknowledgement receipts |
<p>| 24 | Uganda Technical College – Elgon | • A total of shs.13,555,254 was irregularly diverted from subventions for government students’ upkeep to pay salaries for locally recruited staff. |
| 25 | St. Aloysious PTC | • A total of shs.4,635,000 was irregularly diverted from subventions for government students’ upkeep to pay salaries for locally recruited staff |
| 26 | Soroti School of Comprehensive | • A total of shs.11,443,000 was irregularly diverted from subventions for government students’ upkeep |</p>
<table>
<thead>
<tr>
<th></th>
<th>Nursing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Soroti PTC</td>
<td>• There was no evidence of remittance of WHT totaling to shs.2,659,890 to URA</td>
</tr>
<tr>
<td>28</td>
<td>Soroti UCC</td>
<td>• A total of shs.7,775,603 was irregularly diverted from subventions for government students’ upkeep to pay salaries for locally recruited staff</td>
</tr>
<tr>
<td>29</td>
<td>St. John Bosco CPTC–Lodonga</td>
<td>• The PTC did not submit financial statements for audit as required by the regulations</td>
</tr>
<tr>
<td>30</td>
<td>Loro CPTC</td>
<td>• The expenditure of shs.6,815,000 on generator fuel and repairs seemed doubtful. This was due to the fact that although the fuel was bought in cash and in bulk, no fuel register was maintained for its delivery and usage. In addition, the repairs carried out on the generator for which payments were made were not disclosed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The college did not produce and submit financial statements for audit as required by the Education Act</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Non-production and submission of final accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The examination of vouchers revealed that expenditure vouchers worth shs.32,394,600 were not accompanied by supporting documents as required by the regulations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The reported procurements of goods worth shs.8,735,800 seemed doubtful due to the absence of any evidence concerning their receipt, storage and utilization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No process was in progress for the disposal of obsolete vehicles and motorcycles before their values deteriorate further. Meanwhile, monitoring and coordination of education activities in the rural CCTs was constrained by lack of transport.</td>
</tr>
<tr>
<td>31</td>
<td>Unyama NTC</td>
<td>• The NTC did not submit financial statements for audit as required by the regulations</td>
</tr>
<tr>
<td>32</td>
<td>Christ the King PTC - Gulu</td>
<td>• The PTC did not submit financial statements for</td>
</tr>
</tbody>
</table>

200
<table>
<thead>
<tr>
<th>No.</th>
<th>Institute</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>Bobi Community Polytechnic</td>
<td>· The Polytechnic did not submit financial statements for audit as required by the regulations</td>
</tr>
<tr>
<td>34</td>
<td>Omugo Technical School</td>
<td>· The school did not submit financial statements for audit as required by the regulations</td>
</tr>
</tbody>
</table>
| 35  | Muni NTC                  | · The NTC did not submit financial statements for audit as required by the regulations  
    |                           | · The NTC had dilapidated structures as shown in the photographs below: |
| 36  | Arua CPTC                 | · Expenditure vouchers worth shs.3,396,800 were not accompanied by supporting documents as required by the regulations  
    |                           | · The reported procurements of goods worth shs.4,911,000 seemed doubtful due to the absence of any evidence concerning their receipt, storage and utilization  
    |                           | · The school did not submit financial statements for audit as required by the regulations |
|   | The college faced the following challenges:-  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>The staff structure is 25 staff, existing was 13 and vacant posts were 12. For in-service (CCTs), 5 out of 13 Tutor posts were vacant.</td>
</tr>
<tr>
<td>ii.</td>
<td>Latrines for all the 13 rural CCTs are almost full and need new ones.</td>
</tr>
<tr>
<td>iii.</td>
<td>Only 3 staff and the principal were accommodated.</td>
</tr>
<tr>
<td>iv.</td>
<td>The school kitchen and dining hall were in a sorry state and need urgent attention.</td>
</tr>
<tr>
<td>v.</td>
<td>168 Chairs were broken and there were no Teachers’ Desks and Chairs.</td>
</tr>
</tbody>
</table>

37 Packwach UCC

- The above expenditure on generator fuel seemed doubtful. This was due to the fact that although the fuel was bought in cash and in bulk, no fuel register was maintained to show its delivery and usage.

- Expenditure vouchers worth shs.6,107,300 above tune were not accompanied by supporting documents as required by the regulations.

- The College did not submit financial statements for audit as required by the regulations.

- The delivery of procurements worth shs.5,424,048 seemed doubtful due to the absence of any evidence concerning their receipt, storage and utilization.

- The College was using a temporarily shelter for a kitchen and had no Students’ Dining hall. In addition, one of the classrooms near the Administration block had major cracks in the walls and the floor and appeared dangerous to human life.

38 Kamurasi PTC

- The college did not submit financial statements for audit as required by the regulations.

- The college was faced with the following challenges:-

  i. The College did not have an Administration block, a Kitchen, Dining hall, Sick bay and Staff houses. The only existing staff house was the
Deputy Principal’s house which also needs repair.

ii. Three classrooms had been transformed into dormitories for boys.

iii. Girls’ dormitories were not serviced with electric power and a pit latrine.

| 39 | **Nyabyeya Forestry College** | • Receipts were not issued for deflections received from the Ministry, payees were not named in the cash book, payment vouchers were not numbered (entries were referenced to cheque numbers only), contra entries for cash withdrawals were not disclosed; and subsidiary and general ledgers were not maintained.

• The college did not submit financial statements for audit as required by the regulations

• Outstanding electricity bill of shs.68m.

• Lack of teaching aids such a college training forest and Agro forestry demonstration plots

• Lack of capacity to maintain buildings, roads and vehicles.

• Established staff structure is 43, filled posts were 19 resulting into 24 vacant posts while support staff approved structure is 60, filled posts were 21 resulting into 39 vacant posts.

• The mechanical workshop was in a sorry state and needs urgent repairs.

• The College tractor UG 0856S (Shibaura) seemed to have been grounded for a long time without repair or boarding off.

• The boys’ dormitory needed immediate repairs as the verandah was getting detached from the walls.

• The burnt Makerere University hostel had remained unattended to since 2008.

| 40 | **Kigumba Cooperative College** | • The college was constructed in 1974 and most buildings were dilapidated and need urgent renovation. These include the 8 junior staff quarters, the 10 Singles, the 16 Senior Quarters |
and the Library.

- The College’s Toyota Land cruiser UG 0344E had reportedly been grounded for a long time without repair or disposal.
- There was a structure that had reportedly stalled since 1977 and it may become a threat to human life.
- The delivery of reported procurements worth shs.12,739,000 seemed doubtful due to the absence of any evidence concerning their receipt, storage and utilization
- Expenditure vouchers worth shs.14,735,000 were not accompanied by supporting documents as required by the regulations

<table>
<thead>
<tr>
<th>41</th>
<th>Gulu Core PTC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The College has an establishment of 67 staff out of which only 47 posts were filled resulting into 20 vacant positions.</td>
</tr>
<tr>
<td></td>
<td>The College did not submit financial statements for audit as required by the regulations</td>
</tr>
<tr>
<td></td>
<td>Expenditure vouchers worth shs.4,545,450 were not accompanied by supporting documents as required by the regulations</td>
</tr>
</tbody>
</table>

15.0 **HEALTH**

15.1 **Expenditure not Accounted For**

12.1.2 **Outstanding Advances**

During the year under review, advances totaling Shs.555,765,894 remained unaccounted for contrary to financial regulations which require all advances to be accounted for by the financial year end. Delays in submitting accountability may lead to falsification of documents and possible loss of funds.

I have advised the Accounting Officer to strengthen controls over the management of advances.
12.1.3 **Inadequately supported Accountabilities**

Section 181 and Reg 63(4) of the PFAA, 2003 require all vouchers to have full particulars of services or goods and to be accompanied by such supporting documents as may be required to enable them to be checked without reference to any other documents. Contrary to this requirement, a number of officers who were advanced funds amounting to Shs.107,169,133 submitted accountabilities without indicating areas visited and the period of work. Activity reports were also not provided for review, hence rendering the accountability incomplete. I did not obtain reasonable assurance that the funds advanced were applied to intended purposes.

I advised management to streamline the system of accountability of funds advanced to staff in line with the Treasury Accounting Instructions.

15.2 **Bank Accounts**

15.2.1 **Overdrawn Bank Account**

According to the financial statements, the Ministry’s Treasury General Account (TGA) was overdrawn by Shs.1,971,859,543. There was no evidence to show that authority was granted to the Ministry to overdraw the account. This was contrary to Public Finance and Accountability Act (PFAA), 2003.

It was further noted that two Bank of Uganda certificates of balance dated 6\textsuperscript{th} August 2010 and 24\textsuperscript{th} September, 2010 attached to the financial statements reflected different debit bank balances of Shs.3,232,436,517 and Shs.1,167,855,655 respectively as at 30\textsuperscript{th} June, 2010. A review of the IFMS system reflected a debit balance of Shs.1,994,607,466 as at 30\textsuperscript{th} June, 2010. I was therefore not able to confirm the correct balance.

The Accounting Officer explained that following a disputed PAYE debt with URA, the Ministry was served with an Agency Notice for the recovery of Shs.2,269,949,548 which upon execution resulted into the overdrawing of the
Ministry bank account. He also indicated that a reconciliation made later revealed that the amount was recovered in error because the Ministry was not indebted at all to URA. He had accordingly communicated the position to URA seeking recovery of the amount.

I have advised the Accounting Officer to have the bank account properly reconciled and the errors/omissions investigated. In addition the amounts considered recovered in error by URA should be pursued with URA.

15.2.2 **Amount not returned to Treasury**

A total of Shs.37,390,616 that remained unspent on the ministry expenditure accounts – others during the previous financial year, was not returned to the Uganda Consolidated Fund Account, contrary to the government financial regulations that require unspent balances to be returned to the Consolidated Fund at the year end.

I advised management to always transfer unspent balances to the consolidated funds within the time period stipulated by the law.

15.2.3 **Previous Year Payments Effected in the Financial Year 2009/10**

A review of the IFMS revealed that payments amounting to Shs.1,179,809,162 relating to the financial year 2008/09, were made in the year under review. This contravenes regulations which require unspent balances for the year to be returned to the Consolidated Fund. It also results into extra budgetary expenditure in the year under review.

I advised management to have all balances at year end returned to the Consolidated Fund. Any spending after the close of the year should be against the appropriation for the New Year.
15.3 **Domestic arrears**

15.3.1 **Payables not Adequately Supported**

Included in the payable balance of Shs.1,372,768,352 is Shs.158,479,604 which had no adequate documentation like invoices and Local Purchase Orders to support it. Although management explained that all the documentation relating to domestic arrears had been audited by the internal audit unit, there was no evidence to support this explanation. Accordingly, I was not able to verify the occurrence, valuation and validity of this balance.

15.3.2 **New Outstanding Commitments**

During the year under review, the ministry incurred domestic arrears amounting to Shs.35,489,530, contrary to the Government regulations that prohibit Accounting Officers from committing Government unless funds are available.

15.3.3 **Un-reconciled Amounts reflected as domestic arrears**

It was noted that the Ministry’s indebtedness to other institutions is reflected at much higher amounts than what the ministry recognizes in its own books of accounts. For example, scrutiny of the payable balance showed that Shs.137,460,840 was recognised as the Ministry’s indebtedness to National Medical Stores (NMS), and Shs.48,055,080 to Uganda Telecommunications (UTL). However, according to the available documentary evidence, Shs.4.153 billion is demanded by NMS and Shs.53 million by UTL.

I advised the Accounting Officer to ensure that a comprehensive reconciliation is made to confirm the indebtedness to other institutions to avoid possible litigations.

The Accounting Officer explained that the Ministry was still reconciling with the institutions.
15.4 **Mischarge of Expenditure (Shs.650,553,913)**

According to Regulation 39 of the PFAR 2003, all virements within a vote should be by way of a warrant approved by the Secretary to the Treasury, copied to Accountant General and the Auditor General detailing amounts involved, giving an appropriate explanation for the shortfall in the original provision and others. It was noted that Shs.620,320,431 meant for medical and agricultural supplies (expenditure item 224002) was utilized on payment of salaries for intern doctors and sensitization workshops. Diversion of funds hampers implementation of planned activities.

I have advised the Accounting Officer to always seek for appropriate authority before making any virements.

15.5 **Refund to Gavi**

The Ministry refunded Shs.1,890,000,000 to GAVI in respect of funds that were misappropriated by Ministry staff. This amount had not been budgeted for and was therefore diverted from other planned Ministry activities. The amount in question should have been refunded by the implicated officials. As a result, there was no value for money realized for the expenditure.

The Accounting Officer explained that the decision to pay was based on a cabinet directive, requiring the Ministry to refund the money as a precondition for release of more funds by the donors. He also stated that efforts were being made to get those implicated to refund.

15.6 **Nugatory Expenditure**

It was noted that Shs.419, 040,984 was incurred in settlement of interest charged by contractors for delayed payments. The expenditure could have been avoided if management had settled contractors’ invoices promptly.
I advised management to ensure proper planning and prompt payments to contractors to avoid wastage of public funds.

15.7 **Sale of Motor Vehicles**

It was noted that an auctioneer was contracted in 2008 to sell the Ministry’s vehicles and Shs.106,000,000 was realized from the sale. However, by the time of writing this report in March 2011, only Shs.80,000,000 had been remitted by the Auctioneer, leaving a balance of Shs.26,000,000 outstanding. I have advised the Accounting Officer to continue pursuing the recovery of the outstanding balance.

The Accounting Officer explained that the Ministry had already taken steps to blacklist the company for flouting PPDA Act and Regulations.

15.8 **Lack of Contracts Committee Approval**

It was noted that, goods and services worth Shs.340,440,045 were procured without the contracts committee approving the award, contrary to Section 76 of the PPDA Act. This exposes the Ministry to the risk of procuring poor quality goods and services at uneconomic prices.

I have advised the Accounting Officer to always adhere to the procurement law.

15.9 **Lack of Stores Cadre**

During the audit, it was noted that the care, custody and accounting for inventory, plant and tools was vested under the control of the Principal Office Supervisor (POS) who lacks the requisite stores management skills. It was further noted that there was no segregation of duties in the stores management function. The POS receives records and issues all store, in addition to requisitioning for some purchases. This weakens the controls over the stores management function and could result into incomplete records and loss of assets.
The Accounting Officer explained that the posts of Senior Stores assistant and Stores Assistant were declared to the Ministry of Public Service for onward transmission to the Public Service Commission for further action.

I have advised the Accounting Officer to follow up the matter with the Commission and have qualified stores personnel deployed.

15.10 **Under Staffing**

The Ministry has an approved structure of 644 staff. However, at the time of audit in November 2010, only 542 positions were filled leaving 94 positions vacant. Staffing gaps can negatively impact on service delivery. I advised the Accounting Officer to have the necessary recruitment undertaken to achieve a full establishment.

The Accounting Officer explained that the relevant government institutions responsible for the recruitment have been informed of the need for more staff recruitment.

15.11 **Contract Staff Appointments**

Article 172 of the Constitution of the Republic of Uganda requires all persons holding or acting in any Public office to have been appointed by the appropriate authority. The Revised Terms and Conditions of Service of the Uganda Public Service, Circular Standing Instruction No.6 of 1989, abolished temporary staff appointments and required the existing ones, if any to be phased out within six months. However, it was observed that the Ministry employed eighty two persons on temporary terms for over a year contrary to the government requirements.

The Accounting Officer attributed this to the fact that the Ministry structure had never been approved and yet there were critical programmes which had to be manned by staff. I advised that the review and approval of the Ministry structure be expedited to address the problem.
15.12 **Procurement of Anti-retroviral and Artemisinin Combination Therapies (ARV&ACT)**

The Ministry is mandated to provide adequate quantities of affordable good quality essential medicines and ensure that all Ugandans access good health care. The Ministry signed a Memorandum of Understanding with M/s Quality Chemicals to supply ARVs and ACTS. All deliveries were to be made to the National Medical Stores (NMS) for distribution to referral hospital, and other health units.

It was however, noted that there was no Memorandum of Understanding between the Ministry and the NMS which was responsible for the purchase of Government medicines to ensure that there were proper deliveries from the company, and that there are adequate stocks and distribution of these medicines.

Management was advised to enter into a Memorandum of Understanding with NMS to define the role and obligations of NMS in the procurement, storage and distribution of drugs from Quality Chemicals Ltd.

15.12.1 **Payments for Utilities**

A total of Shs.914,894,725 was paid to utility firms during the year under review. However there was an un reconciled brought forward balance of Shs.946,900,287 in respect of three utility accounts which had remained unresolved.

I advised management to ensure that proper reconciliations are made for all the accounts to confirm their accuracy.

The Accounting Officer explained that the he had instituted a task force to perform a thorough reconciliation of all their utility accounts.
15.12.2 **Assessment of Delivery of Outputs**

Assessment of performance of the Ministry indicated that several planned activities were either partially completed or were not undertaken at all. Failure to undertake all the planned activities could hamper achievement of the ministry’s intended objectives.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Planned Performance</th>
<th>Actual Performance</th>
<th>Performance Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of office and IT equipments</td>
<td>Procurement of office equipment and furniture worth Shs.200 m</td>
<td>Solar energy packages procured in 12 districts.</td>
<td>Furniture not purchased</td>
</tr>
<tr>
<td>Purchase of specialized equipments</td>
<td>3 hospitals to be equipped with imaging equipment and generator, 11 HCIV to be equipped with a generator, ultra sound scanner and theatre equipment</td>
<td>4 X-ray machines, 4 generators and 4 ultra sound scanners installed in Hoima, Gombe, Masindi and Kalisizo hospitals, Generator, ultra sound scanner, blood fridge and theatre equipment installed in 8 HCIV hospitals</td>
<td>HCIV hospitals not equipped with generator, ultra sound scanner and theatre equipment</td>
</tr>
<tr>
<td>Hospital construction/Rehabilitation</td>
<td><strong>To start work at</strong></td>
<td><strong>Nil</strong></td>
<td><strong>Not started</strong></td>
</tr>
<tr>
<td></td>
<td>- Moyo- Rehabilitation of water supply plumbing &amp; drainage</td>
<td><strong>Nil</strong></td>
<td><strong>Not started</strong></td>
</tr>
<tr>
<td></td>
<td>- Nakaseke-Re-roofing &amp; replacement of doors</td>
<td>Nil</td>
<td>Not started</td>
</tr>
<tr>
<td></td>
<td>- Lyantonde-Build x-ray department</td>
<td>Nil</td>
<td>Not started</td>
</tr>
<tr>
<td></td>
<td>- Kapchorwa-Build x-ray department</td>
<td><strong>Nil</strong></td>
<td><strong>Not started</strong></td>
</tr>
</tbody>
</table>

I advised the Accounting Officer to ensure that all activities are implemented according to plan.
15.12.3 **Asset Management**

The assets kept at the engineering department in Wabigalo were in a very poor state. Most of them had been vandalized and have continued to lose value. It was further noted that old stores that were listed for boarding off in the UNEPI stores had not been boarded off despite my recommendation in the previous audit report.

I advised management to expedite the disposal process to avoid further loss in value.

15.12.4 **Human Resource Management**

(i) **Staff performance appraisal**

Through discussions with some seconded doctors, it was found out that their annual performance appraisal was not being appraised like other government staff. The performance for those on probation was also not appraised.

I have advised the Accounting Officer to ensure that the performance appraisals of all seconded doctors are carried out in accordance with staff appraisal requirements.

(ii) **Updating of records**

A review of the personnel files revealed that they are not updated on regular basis and hence cannot be relied on when making staff related decisions.

I advised the Accounting Officer to have adequate controls in place to enable proper records management.

(iii) **Study leave without clearance**

It was noted during the audit that some doctors had gone for further studies without clearance by both the Health Service Commission and Ministry of health as required by the government regulations. Some of those who were cleared to undertake their graduate studies had also taken a longer time than authorized.
There is a risk that staff could abscond under the pretext of going for further studies and continue receiving salaries and allowances causing financial loss to the government.

I advised the Accounting Officer to investigate doctors who had taken unauthorized study leave and those who had not resumed work after the expiry of their study leave.

15.12.5 **Inspections**

During the year under review, field inspections of activities undertaken by the ministry were made. The objectives of the inspections were to assess the extent of implementation of the activities as well as the quality of work done. The major findings included the following:-

**Field inspection reports**

<table>
<thead>
<tr>
<th>Health Unit</th>
<th>Contractor</th>
<th>Finding</th>
</tr>
</thead>
</table>
| **Masafu hospital in Busia district** | M/s Tabula Contractors at a total of Shs.745,813,727 | - Completion date was over shot by 12 months. Liquidated damages that amounted to shs.134,246,470 were not deducted from the payments to the contractor.  
  - Male ward had poor drainage around the rehabilitated ward and Rain water collected and stagnated on the verandah edge. |
| **Butebo H/C 1V- Pallisa District** | M/S Armpass Technical Services  
  Contract signed on 1st June 2007 at a contract price of Shs:641,938,690 | - Bathroom was not used due to poor drainage  
  - Walkway from the theatre to maternity ward was not properly joined and crossing during rain was impossible and also it flooded  
  - No gutters to direct water although this was to be fixed as per the contract  
  - Veranda and floor was cracked all over  
  - Most of the doors and windows were faulty  
  - Records office had leaking roof and had spoilt the records  
  - Operating Theatre had only 4 internal swinging doors instead of 6 as per the BOQ, moreover they were making too much noise as they swung and they were not closing properly  
  - Ceiling was cracked |
<table>
<thead>
<tr>
<th>Hospital</th>
<th>Contractor Details</th>
<th>Issues</th>
</tr>
</thead>
</table>
| Mbale Hospital        | Lubmarks signed on 26th May 2008 at a contract sum of 495,089,338=                  | - Storage cabin for drugs and equipment was wooden shatters instead of glass and its finishing was very poor.  
- Poor drainage because the floor was not sloping/slanting |
| Fort Portal Regional Referral Hospital; | M/S Pancon Engineers Ltd - For rehabilitation of the Male and Female at shs.711, 230,014 | - Cracks were noticed on the floors, walls and on the main door to Women’s ward.  
- Window fasteners were off and door locks at the maternity ward were off making control of the attendants/visitors to the ward difficult  
- Drainage system was blocked implying poor workmanship. |
| Kambuaga Hospital     | M/S Lubmarks Investment Ltd signed a contract on 19th June 2008 to partially rehabilitate Kambuaga Hospital in at a cost of shs. 269,225,991 | - Septic tank was not done.  
- poor plumbing  
- No work was done at all in the Kitchen and laundry  
- Rehabilitation of water and sewerage systems had not been completed.  
- The lightning arresters had not been replaced as per the contract.  
- Very poor mosquito gauze now rusted was used.  
- Gutters used were too small and water was not collecting in the tank.  
- Ceiling for male ward was not done.  
- Electrical work was not done at all.  
- Most door glasses were not fitted.  
Management suspended the contractor due to delayed completion and poor workmanship on 27th Oct 2010 |
| Itojo Hospital        | M/S Coronation Developers (U) Ltd signed a contract on 15th May 2008 shs.483,409,110   | - Water tank was not protected with fence as provided in the contract.  
- Mortuary was not worked on as per the contract.  
Numerous extensions of the completion date had been made from the original 14th January 2009 to May 2010 due to the disappearance of the contractor from site and delayed payments of certificates by the Ministry of Heath. |
15.13 **Support To The Health Sector Strategic Plan Project (II)
ADF LOAN NO.2100150013194**

(i) **Ineligible expenditure**

The project Financing Agreement stipulates that ADB funds should not be used to pay for any transfer fees or bank charges. Contrary to this requirement, the project incurred a total of Shs.2,263,182 in respect of bank charges and transfer fees levied by Bank of Uganda on the special account. Non compliance with the provisions of the financing agreements could lead to imposition of penalties by the donor which may affect project operations.

Management was advised to ensure that project funds are refunded from the GOU component.

Management explained that they were committed to refund this amount to the ADB Special Account.

(ii) **Accounting system**

It was noted that the Project Implementation Unit maintained a manual accounting system (excel spread sheets) to record all its accounting ledger books. This rendered accounting including the preparation of financial statements laborious and prone to errors. Although this matter was also reported in my previous audit report, it was not addressed by management.

Management was advised to consider obtaining accounting software for the purpose.

Management explained that the Project planned to use an automated accounting system. However, due to budgetary implications involved in the acquisition of an accounting system, the project would continue to explore ways of benefiting from the GOU IFMS that is being rolled out in phases within GOU departments and ministries.
(iii) **Budget Performance**
During the year under review, the approved budget for the ADF loan component was Shs.22,850,000,000. However, by the close of the financial year, the project had received Shs.15,692,548,000 (representing 68.7 per cent of the budget) leading to a shortfall of Shs.7,157,452,000. A further analysis of the project financing indicate that the cumulative loan disbursements to the project as at the end of the third year of implementation was about 52 per cent against the planned 65 per cent. This reflected slow progress in the implementation of the project activities given the fact that more than half of the project period had elapsed. The overall objectives for the project may not be attained within the anticipated period of time.

Management is advised to expedite the implementation process to ensure that all activities are completed within the planned project duration.

Management explained that disbursements had since risen to 63 per cent by December 2010.

(iv) **Utilization of ambulances**
In a bid to improve the health service to the communities, the project procured a total of 26 ambulances that were handed over to the HC IV's and Hospitals as per plan. However during field inspections, it was noted that there was a challenge of maintenance and sustainability of these ambulances. Some of the health facilities visited had their ambulances parked due to lack of fuel and some needed to be serviced. This implied that the ambulances in question were being not fully being utilised.

Management was advised to ensure that the ambulances are put to the intended use.
Management explained that the use of ambulances had been streamlined and that the health centres that had these ambulances had been advised to include the necessary maintenance costs and running costs within the recurrent budgets.

(v) **Procurement**
It was noted that the project experienced anomalies specifically in the evaluation processes of certain tenders that resulted into administrative reviews. For instance a review of the evaluation process for the remodeling of Mbarara regional referral Hospital indicated that the criteria used to disqualify one of the bids was not justified and had led to unfair elimination of Excel Construction Ltd at the preliminary stage of evaluation on the basis of invalid bid security. Although the decision was overturned by the PPDA through an administrative review, the actions and decisions made during this evaluation indicates weaknesses within the procurement process of the project which undermines the transparency and fairness principles enshrined in the procurement law. Such errors could have cost the project in terms of uncompetitive prices and legal fees.

Management should strengthen the procurement process through training of staff involved.

Management explained that they had devised mechanisms for selection of members of the evaluation committee who were well trained and conversant with the procurement law to minimise a repeat of the same. Management also planned to strengthen its procurement process by budgeting for training of the officers within the entity who would be carrying out evaluations from time to time.

(vi) **Delayed implementation of key project activities**
Inspections revealed that there were significant delays specifically in the implementation of the civil works for the remodeling of the Mbarara regional
referral hospital, the construction of health centres, and the procurement of necessary medical equipment for these health facilities.

The delays were partly attributed to the delays in the procurement process and to the slow pace of works by the contractors who were engaged on many other sites. For instance whereas the procurement for the remodeling of the Mbarara Hospital was initiated in November 2008, the contract award was made in January 2010 after a period of 14 months. Such delays in the implementation of key project activities can affect the timely achievement of the intended goals and objectives of reduction of maternal mortality.

A summary of the status of some of the activities is as follows:

<table>
<thead>
<tr>
<th>Details</th>
<th>Reference photo</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rehabilitation of Mbarara Regional and teaching Hospital</td>
<td>Behind Schedule</td>
<td></td>
</tr>
<tr>
<td>The rehabilitation and construction of 39 health centres in the 9 districts of the project</td>
<td>Behind Schedule</td>
<td></td>
</tr>
<tr>
<td>Bufunda Health Center had been scheduled for completion in mid August 2010</td>
<td>Behind Schedule</td>
<td></td>
</tr>
<tr>
<td>Project Location</td>
<td>Status</td>
<td>Notes</td>
</tr>
<tr>
<td>------------------</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td>Butanda Health Centre staff house</td>
<td>Originally scheduled for completion in mid April 2010</td>
<td></td>
</tr>
<tr>
<td>Rweikiniro Health Centre</td>
<td>Originally scheduled for 30th May 2010</td>
<td></td>
</tr>
<tr>
<td>Procurement of medical equipment and furniture for both Mbarara hospital and the health centres</td>
<td>Contract for the supplies awarded. Delivery not done by the time of audit</td>
<td></td>
</tr>
</tbody>
</table>

Management should review the operational processes to ensure that such delays are avoided in future.

15.14 **Danida Health Sector Programme Support Phase III (HPS III)**

(a) **Slow pace of resource utilization**

The Programme Unit budgeted to spend Shs.39,045,500,000 during the financial year ended 30th June 2010 but only spent Shs.14,528,412,569 representing 37.2 per cent of the budgeted expenditure. It was also noted that whereas the programme unit had approved some transactions, the process of effecting payments in the MOH tended to delay due to bureaucratic process. This slowed
down resource absorption. For example the requisition of Shs.3,899,400 for stationary by the pharmacy council was approved by the programme on 7th April 2008, items were supplied on 9th September 2009 and payment was made on 2nd November 2009. Furthermore, requisition for Shs.3,500,000 for vehicle service and fuel was approved by the programme on 5th February 2010 but cleared by MOH on 11th May 2010 after three months.

Slow pace of programme implementation affects both the planning and monitoring for the subsequent periods. Furthermore, it becomes difficult to achieve the intended programme objectives in the set time period.

Management promised to streamline the timing and coordination of procurement process and all other activities.

(b) Possible misuse of funds

It was noted that there was possible misuse of funds during the year under review. For example on 23rd September 2009 several cash withdraws of Shs.18,483,200, shs.18,02,400 and shs.12,480,400 (totaling to Shs.48,990,000) were made and later handed over to collect qualitative data for the annual health sector performance report FY 08/09. However, I was not availed with any report for the activity and accountability of the monies released.

In absence of a field report (Data collected) and accountabilities with all supporting documents I was not able to confirm that the activities were undertaken.

I recommend that management in conjunction with the programme Unit follows up the matter to ascertain whether the programme funds were put to proper use and if not the money should be recovered from the concerned personnel.
The Accounting Officer explained that out of Shs.48,990,000 advanced, a total of Shs.11,915,600 was accounted for by the Pharmacy Division. The balance of Shs.37,074,400 is now a court case under Ref. No. E/400/2009.

I advised the Accounting Officer to ensure that the matter is followed up to ensure full recovery of the amounts in question.

(c) **Failure to recover the unutilized funds from the staff**
I noted during the audit that Management was reluctant to implement my prior year recommendations. For example, I recommended that an officer refunds a sum of Shs.6,891,142 he received on 22nd January, 2007 as field allowance for Masaka Regional planning workshop that never took place, but by the time of audit only a total of Shs.1,700,000 had been recovered as per receipt No 0444965 dated 1st March, 2010.

Furthermore, a hotel in Masaka had been paid a total of Shs.6,549,153 for the same workshop as per receipts No 1415 and 1416 dated 12th February 2007. These funds had not been recovered from the hotel at the time of audit in November, 2010.

The above cases indicate that there are control weaknesses in monitoring and management of Programme funds. The Ministry in conjunction with the Programme Unit should follow up the matter and recover the Programme resources.

In their response, management explained that they were still pursuing the recovery of the amounts from the officers and the hotel.

(d) **Poor cash management**
Effective cash management is one of the basic pillars of sound financial management. There were instances where huge sums of money were withdrawn in cash for workshops and other activities including payments to hotels instead of
issuing cheques. Workshops would then take place months later. For example on 12\textsuperscript{th} February 2009 an officer was given Shs.18,462,700 to cater for the 1\textsuperscript{st} Nile Regional Planning workshop which took place between 2\textsuperscript{nd} and 3\textsuperscript{rd} April 2009 and accountability was submitted on 3\textsuperscript{rd} July 2009. Another officer on 12\textsuperscript{th} February 2009 was given Shs.9,282,000 to cater for Tororo Regional Planning workshop which took place between 2\textsuperscript{nd} and 3\textsuperscript{rd} July 2009. Another officer was given Shs.40,877,600 on 6\textsuperscript{th} June 2010 for regional dissemination of communication strategy on rational use of medicine an activity that had not taken at the time of audit in November 2010.

This may expose Programme funds to misuse and misappropriation. Holding project funds in cash for more than three months before an activity is implemented affects reporting for that Quarter and impacts on the realisation of the overall objectives of the programme. The current cash payment system exposes programme funds to the risk of being misused.

The Accounting Officer should ensure that strong controls are put in place in respect of cash management and a threshold amount should be considered beyond which cheques must be issued.

The Accounting Officer explained that the scheduling of the Regional Planning Meetings was done by planning unit. He regretted a delay in submitting accountabilities by the officers. He also stated that the launching of the Regional Rational Use of Drugs for which Shs.40,877,600 was advanced to an officer had not taken place due to procurement delays and that the funds were still on his personal account.

I advised management against continued keeping of programme funds on personal accounts as it can lead to misuse of funds. The matter should be investigated further by the Ministry and appropriate action taken.
(e) **Retrospective authorization and approval of procurements**

A review of internal controls over the procurement of goods and services for the programme, revealed a case where procurement of goods and delivery was made before the approval and authorisation by the contracts committee. For example, on 7th December 2009 a part payment of Shs.17,068,800 was made to a Company for the supply of printed National Laboratory Policy as per invoice No 403 and Delivery note No 403 all dated 21st September, 2009. However the LPO was dated 29th September, 2009 while the approval by the contracts committee was on 23rd November, 2009.

The procurement department and the contracts committee did not comply with the recommended procurement procedures.

I advised management to always ensure that all procurements are approved by the contract committee and authorized by the designated and responsible officers before actual expenditure is incurred.

16.0 **WORKS AND TRANSPORT**

16.1 **Expenditure Un accounted For**

During the year under review, a total of Shs.300,000,000 and Shs.150,000,000 was advanced to the districts of Sironko and Bugiri respectively, to cater for road rehabilitation. However accountabilities for the utilisation of the funds by the two district councils were not submitted for verification. In the circumstances, it was not possible to confirm whether the funds were applied for the intended purpose.

The Accounting Officer has been advised to pursue the accountability of the funds or seek recovery from the responsible districts.

16.2 **Cash Adjustments**

The Statement of Changes in Equity reflects an adjustment of Shs.409,457,288 made to the cash balances of the previous financial year (2008/09). The current
GL reconciliation appears to be having an accumulation of errors that have not been corrected.

I advised the Accounting Officer to have the Treasury General Account properly reconciled with the Bank records.

The Ministry explained that they are still in consultation with Bank of Uganda to have the Bank account reconciled.

16.3 **Discrepancies in Appropriation Statements**

The Statement of Appropriation shows the services for which the moneys expended were voted, the sums actually expended on each service, and the state of each vote compared with the amount appropriated for that vote by Parliament.

The two statements of appropriation analyse the total expenditure according to the nature of expenditure and the services voted by Parliament. However a review of the two statements revealed that the two appropriation statements have two varying totals of expenditure as shown below:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Amount (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure as per Statement of Appropriation (based on nature of expenditure for services voted)</td>
<td>96,828,932,668</td>
</tr>
<tr>
<td>Total Expenditure as per Statement of Appropriation Based on Services voted by Parliament</td>
<td>113,941,157,823</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>17,112,225,155</strong></td>
</tr>
</tbody>
</table>

Although the total expenditure as per Statement of Appropriation (based on nature of expenditure for services voted) of Shs.96,828,932,668 has been reconciled with the total expenditure as per the Statement of Financial Performance, the difference of Shs.17,112,225,155 in total expenditure of the two statements of appropriation was not explained. There is a high possibility
that the Statement of Appropriation Based on Services Voted by Parliament is misstated.

The Accounting Officer was advised to investigate the discrepancy and take appropriate action.

16.4 **Theft of Metallic Culverts and Gabion Boxes**

Metallic Culverts and gabion boxes worth Shs.368,568,900 were stolen from the CME stores. This was partly attributed to inadequate protection measures at the yards. An audit inspection of the CME stores revealed that the culverts are piled in the open CME yard without adequate protective measures.

Review of the documentation regarding the case also revealed that:

- The supervision and deployment by the security service provider were not adequate.
- The security firm’s personnel were involved in the theft of the materials as one of them was found in possession of the stolen gadgets.
- The automated (CCTV) security system was actually defective and not serving the intended purpose.
- Although the security firm accepted responsibility, to-date there has been no action taken to make good the loss.
- The case was reported to police and the suspect prosecuted, but he later died in the cells and the case was closed.

I advised the Accounting Officer to follow up the matter with the management of the firm and have the loss made good.

The Accounting Officer promised to follow-up the matter. He also explained that the Ministry was in the process of upgrading the CCTV security system to cover the whole yard and that the security of the premises had been enhanced with the installed electrified razor wire.
16.5 **Procurements without justification for restricted bidding**

Procurements totaling to shs.2,108,641,300 for various civil works as shown below, were made using restricted bidding procurement method citing reasons that do not justify use of the method contrary to PPDA Act, 82 (2) and the Fourth schedule of the PPDA Act.

<table>
<thead>
<tr>
<th>Project</th>
<th>Contractor</th>
<th>Contract Sum (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bukoloto – Njeru Road 45km</td>
<td>Omega Construction Ltd</td>
<td>705,523,800</td>
</tr>
<tr>
<td>Improvement of Lwanabatya – Kibanga Road 22Km</td>
<td>Ssese Construction Company</td>
<td>452,780,000</td>
</tr>
<tr>
<td>Construction of Ngusi Bridge in Hoima District</td>
<td>Omega Construction Ltd</td>
<td>371,753,500</td>
</tr>
<tr>
<td>Improvement of Kaluba – Wandawa – Bugoto Road (42 km)</td>
<td>Sixway Engineering Works</td>
<td>200,921,000</td>
</tr>
<tr>
<td>Maintenance works of selected critical road links in Kampala, Kayunga, and Luwero District 50km</td>
<td>Nippon Parts Uganda Ltd</td>
<td>377,663,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>2,108,641,300</strong></td>
</tr>
</tbody>
</table>

The use of restricted bidding in contracts of such magnitude restricts competition and may limit achievement of Value for Money.

The Accounting Officer explained that all the firms invited to bid were pre-qualified by the Ministry’s Contracts Committee and that the Ministry was in the process of forwarding the list to PPDA for accreditation.

I have advised the Accounting Officer to always properly plan for the procurement in order to allow use of the recommended procurement methods and ensure achievement of Value for Money.
16.6 **Lack of Strategic Plans**

The Ministry did not have a strategic plan to guide it towards achieving its mandate. The ministry only relied on the annual Ministerial Policy Statements and three year rolling medium term expenditure framework (MTEF) which only focus on short term planning. Without a strategic plan, the Ministry may not be properly directed towards the achievement of its objectives and it may be difficult to monitor and evaluate its performance.

It was also noted that the Ministry had not developed an IT strategic plan yet there were heavy investments being made in IT including RAMPS for District roads, ROMAPs for road maintenance, IFMS and the LAN for the Ministry. This matter was also raised in my previous audit report but had not been addressed. There is a risk that the investments in IT may not be properly guided leading to waste of government resources.

In his response, the accounting officer explained that the Ministry had embarked on the development of a strategic plan hoping to conclude and launch it by end of June 2011.

16.7 **Management of MV Kalangala Ship**

The contract to manage M/V Kalangala Ship was awarded to a Company at a contract price of Shs.8.9 billion (VAT inclusive), spread over a period of 3 years ending 30th June 2010. However, a review of the available records revealed the following matters:-

- It was noted that the management contract expired in June 2010. Although authority to extend it was granted by PPDA, this was not formalized. I have advised management to ensure that a formal agreement is made for the extended six month period.
- The Ministry did not have sufficient funds in the 2009/10 budget to cater for the management fee for the ship. As a result the funds were reallocated from the development budget for projects 297, 902, 1096 and 1049 to cater for
the shortfalls in funding for the management fees. This has the effect of suffocating the development projects from which the funds were reallocated.

- The ship was meant to run on a commercial basis but records showed that it was not commercially viable to operate under the current terms. For example, whereas a total of shs.2.96 billion was spent on the management contract during the year under review, only Shs.1.01 billion was realized as revenue. Furthermore, the repair costs for the ship are likely to increase as it gets old.

I have advised management to review the operations of the ship with a view of making its operations more viable and sustainable. In addition, the process of procuring another company to manage the ship should be expedited.

16.8 Unserviceable Vehicles, Plants and Equipments

A review of the list of vehicles showed that a number of vehicles that were no longer economical to run were still maintained by the Ministry. Some of the vehicles were more than 20 years old, could no longer serve any useful purpose and had become unserviceable. Such old vehicles, plant and equipment are expensive to maintain and retaining them subjects them to further deterioration. Although the Ministry initiated the process of boarding off these assets in August 2010, details regarding the progress were not available at the time of audit.

I advised the Accounting Officer to expedite the process of disposing off the old vehicles and plant in question.

16.9 Vehicles Abandoned in Private Garages

The inspection also revealed that a number of vehicles had been abandoned in private garages. Some of these vehicles had spent many years in these garages and had been vandalized. A number of other vehicles had their registration numbers removed, rendering it difficult to identify their particulars. The vehicles shown below were found in garages but were not recorded in the assets register of the Ministry:-
<table>
<thead>
<tr>
<th>REG.NO.</th>
<th>Body description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water bowzer</td>
<td>Not recorded in assets register</td>
</tr>
<tr>
<td>UG0195W</td>
<td>Suzuki</td>
<td></td>
</tr>
<tr>
<td>UG1099W</td>
<td>Nissan h.body</td>
<td>Recorded in the assets register</td>
</tr>
<tr>
<td>UGO794W</td>
<td>Mitsubishi tipper</td>
<td>Not recorded in assets register</td>
</tr>
<tr>
<td>UG1082W</td>
<td>Nissan patrol</td>
<td></td>
</tr>
<tr>
<td>UG1272W</td>
<td>Nissan hard body</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Suzuki</td>
<td></td>
</tr>
<tr>
<td>UG1274W</td>
<td>Pajero</td>
<td>Recorded in the assets register</td>
</tr>
<tr>
<td>UG0956W</td>
<td>Pajero</td>
<td>Not recorded in the assets register</td>
</tr>
<tr>
<td>UG1204W</td>
<td>Pajero</td>
<td>Recorded in the assets register</td>
</tr>
<tr>
<td>UG1247W</td>
<td>Nissan</td>
<td>Not recorded in assets register</td>
</tr>
<tr>
<td>UG1320W</td>
<td>Hilux</td>
<td></td>
</tr>
</tbody>
</table>

The risk of losing these vehicles through either theft or vandalism is high.

In his response, the Accounting Officer explained that these vehicles were in the garages for repair and some of them had been earmarked for boarding off.

I have advised the Accounting Officer to retrieve these vehicles from the private garages to avoid possible vandalism.

16.10 **Procurement not in the 2009/2010 Work Plan**

Section 58 of the PPDA Act requires a procuring and disposing entity to plan its procurements and disposals in a rational manner. The plan should be made in accordance with the approved budget estimates for the year. It was noted that a procurement worth Shs.209,644,155 for construction of a wall at Mbarara Regional Mechanical Office had not been included in the procurement plan for 2009/10 nor in the Ministerial policy statement for 2009/2010 as required by the law. Such unplanned procurements can lead to rushed procurement and diversion of funds.
I have advised the Accounting Officer to ensure that a comprehensive procurement plan is always compiled for the entire ministry operations.

16.11 **Irregular Revision of Contract Prices**

Section 262(6) of the PPDA regulations states that, “Where a contract is amended more than once, the cumulative value of all contract amendments shall not increase the total contract price by more than 25 percent of the original contract price”.

The Ministry contracted various companies to provide vehicle rental services during the African Union summit. However, the contract prices were revised upward thereafter before the summit date by more than 25 per cent. This required the Ministry to obtain a waiver from the PPDA and although there was communication to this effect, there is no proof that the waiver was obtained.

**Table:**  
**Revision of Contract Prices**

<table>
<thead>
<tr>
<th>Lot No</th>
<th>Service Provider</th>
<th>Original Contract Price (Shs)</th>
<th>Revised Contract Price (Shs)</th>
<th>%age Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Country Safaris</td>
<td>166,125,120</td>
<td>247,311,480</td>
<td>48.8%</td>
</tr>
<tr>
<td>4</td>
<td>Africa One Tours &amp; Travel Ltd.</td>
<td>124,572,128</td>
<td>160,286,480</td>
<td>28.7%</td>
</tr>
<tr>
<td>5</td>
<td>Meteoric Tours and Travel Agency</td>
<td>117,103,200</td>
<td>149,246,400</td>
<td>27.4%</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that there was need to cater for the additional transport for the Heads of State /Government from the Caribbean Countries belatedly invited to attend the AU 2010 Summit and also for early arrivals of delegates (AU Commissioners) than was earlier envisaged during the initial planning and budgetary stage. He further elaborated that this happened at the time when the initial awards for procurement of vehicles had been made and the
summit was about to start adding that that the changes made in the type of vehicles and their prices were later approved by the Contracts Committee.

I have advised the Accounting Officer that this was contrary to the procurement law.

16.12 **Payment wrongly recorded by National Water and Sewerage Corporation (NW&SC)**

A payment of Shs.79,686,238 was made to National Water and Sewerage Corporation (NWSC) in settlement of the Ministry’s various water accounts. One of the accounts had arrears of Shs.54,557,455. A review of the detailed Statement of Account for this particular account revealed that a payment of Shs.18,019,764 made to NW & SC on 5th February, 2009 was wrongly entered on the statement. At the time of payment, the amount shown as owed by the ministry was Shs.11,895,126 which was then increased to Shs.29,914,890, hence overstating the amount owed by the Ministry by Shs.36,039,528 (i.e. Shs.18,019,764 x 2). The Ministry continued to effect more payments on this account without having the error corrected and by November 2010, the Statement reflected an outstanding amount of Shs.14,839,100.

The Ministry should follow up this matter with NW & SC and have the amount made good. Periodic reconciliations of all the utility accounts should also be carried out by the Ministry to avoid the reoccurrence of such errors.

16.13 **Mechanical Workshops**

16.13.1 **Bugembe Mechanical Workshop**

**Remittances to Uganda Revenue Authority (Shs.18,243,174)**

Statutory deductions in respect of withholding tax and PAYE from payments made to suppliers and employees amounting to Shs.18,243,174 were made by the workshop during the year under review. However, their remittance to Uganda Revenue Authority was not supported by acknowledgement receipts. I could therefore not confirm that the funds were actually received by the tax body.
Although Management stated that they had formally requested URA to provide the receipts, they had not been provided by the time of writing this report in March 2011.

16.13.2 **Gulu Mechanical Workshop**

**State of the station office block**

During the audit inspection, it was noted that the Gulu Station offices are in a dilapidated condition with toilets almost collapsing. The offices have not been renovated for a long period.

I have advised management to provide for renovation of the offices in its future budgets.

16.14 **District Roads Rehabilitation Programme**

During the financial year, the ministry disbursed funds to various districts to cater for rehabilitation of various roads. An audit inspection was carried on a sample of the rehabilitated roads to establish whether the funds were actually used for the intended purpose and the current condition/status of the rehabilitated roads.

The following matters were noted:-

16.14.1 **Masaka District**

(a) **Bukulura-Kalungu-Nabutongwa Road**

The scope of work included bush clearing, graveling, culvert installation and cleaning the drains by M/S SEK.B.SERVICES under contract number MASA/WKS/0910/00119. The following matters were noted:-

(i) **Road surface**

The carriageway was still holding. However, few corrugations were noted along some sections of the road, the vegetation had overgrown in the side drains and
had covered the shoulders in some sections. The entire road lacked routine maintenance.

In his response, the accounting officer explained that at the time of inspection, the road lacked routine maintenance because the Contractor’s defects liability period had just expired (November 2010). Procurement for routine maintenance by the District under the Road Fund was on-going.

(ii) **Materials testing**
The imported material (gravel) was used on the entire road. However there is no evidence to show that the material was tested. Therefore I was not able to ascertain whether the intended strength and quality of materials used were appropriate.

Management explained that since there was no provision in the contract for materials testing, visual assessment was carried out which involved bottle testing where gravel is poured in bottle/glass of water and shaken and settled particles are observed to determine grading. For future contracts the Districts will be instructed to include a provision for materials testing on all works.

(iii) **Culverts**
Some of the installed culverts were found to be silted. The culvert installed at chainage 2+009, lacked headwalls as these had not been constructed.

Management explained that this was due to lack of routine maintenance following the expiry of the Contractor’s defects liability period in November 2010. Procurement for routine maintenance by the District under the Road Fund was on-going.
16.14.2 **Bukere -Namirembe road**

The scope of works included gravelling, swamp raising and cleaning of drains by Emco Works at a contract sum of Shs.261,392,194 under contract number MASA/533/WRK/0910/00121.

(i) **Road surface**

The carriageway was still holding. However, the vegetation had overgrown in the side drains and had covered the shoulders in a number of sections. The entire road lacked routine maintenance.

(ii) **Material testing**

The imported material used on the entire road was gravel. However there is no evidence to show that the materials used were tested. I was not able to ascertain whether strength and quality of materials used were appropriate.

(iii) **Culverts**

Many of the culverts were found to be silted and others lacked headwalls, for example at chainage 10+500, the head wall was not constructed.

16.14.3 **Mukoko-Bilinzi Kigo road**

**Road surface**

Loose material (gravel) was noted along the entire road signifying poor compaction during the physical works. It was noted that the road is losing its wearing course at a fast rate.

No explanation was provided for this anomaly.

I advised management to always ensure that supervision of contractors is always properly undertaken to ensure that proper procedures are undertaken during construction.
16.14.4 **Kiboga District**

(a) **Rehabilitation of Bukomero-Kankizi – Kayera-Kyankwanzi (76kms)**

The scope of works included bush clearing, heavy grading, gravelling, installation of culverts and excavation of mitre drains by the Contractor under contract number MoWT/CL/021/08/09 for a contract sum of Shs.2,285,694,834. The following matters were noted:-

(i) Work progress and delayed completion

The physical works commenced on 9\textsuperscript{th} December, 2009 and the completion date of the works was 9\textsuperscript{th} August, 2010 with approved extension of time to December 2010.

At the time of audit in November 2010, the road formation activity was in progress. The bush clearing had been halted and there was no activity beyond Km 63+000. The following additional matters were observed:-

<table>
<thead>
<tr>
<th>Item</th>
<th>Activity</th>
<th>Chainages from</th>
<th>Chainages to</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>gravelling</td>
<td>00+000</td>
<td>20+050</td>
<td>The carriageway has lost the entire gravel especially between 2000 and 4500. The shoulders were not adequately compacted and the area between the headwall and carriageway were not properly backfilled. The headwall height above the road level was 0.45m less than 0.6m specified in BOQ's</td>
</tr>
<tr>
<td>2.</td>
<td>Swamp filling</td>
<td>20+050</td>
<td>21+850</td>
<td>Not completed</td>
</tr>
<tr>
<td>3.</td>
<td>gravelling</td>
<td>21+850</td>
<td>41+250</td>
<td>gravelled</td>
</tr>
<tr>
<td>4</td>
<td>Swamp filling</td>
<td>41+250</td>
<td>41+600</td>
<td>Not completed</td>
</tr>
<tr>
<td>5</td>
<td>gravelling</td>
<td>41+600</td>
<td>42+500</td>
<td>Not compacted properly</td>
</tr>
</tbody>
</table>

There is likelihood that with the pace at which the works are progressing, the new completion date will not be met.
Management explained that at the time of inspection, some sections between Km 2+000 to Km 4+500 had lost gravel and that the contractor had been instructed to re-gravel those sections. In addition, the contractor was instructed to re-compact those sections and have them tested.

Regarding the contract completion date, he indicated that it had been extended to 23rd January 2011. He also explained that the contractor would be charged liquidated damages in accordance with the conditions of the contract if he failed to complete the works in time.

(ii) Lack of Mitre drains in critical areas
The gravelled section between ch:29+000 to ch:42+500 lacked mitre drains. This was likely to cause flooding over the gravelled sections whenever there is heavy rain as was the case during the inspections as shown in the photographs below:

I have advised management to ensure that proper drainage channels are constructed to preserve the main carriage way.

16.15 Improvement of Critical Road Links in Iganga and Namutumba District
Lack of maintenance
It was noted that the road lacked routine labour based maintenance which led to blocked drains and culverts as well as overgrown bush as shown in the photographs below:-
Accumulated silt at the culvert opening

Culvert wall completely covered in the bush along Nawandala- Busala road

Bushy section along Busala-Namulanda Road, making the road narrower

It was also noted that the gravel had been eroded away in a number of sections which could be attributed to poor compaction or poor quality of gravel. Some of these sections required installation of culverts to improve on the drainage. However, the provisions were not sufficient to have all the required culverts. With little consideration put on the drainage systems, the funds expended on rehabilitation of the roads were wasted due to faster deterioration caused by
poor drainage systems. The pictures below show areas which were being affected by water due to lack of adequate drainage systems.

In his response, the accounting officer regretted the anomaly and indicated that the matter had been brought to the attention of the Chief Administrative officer (CAO), Iganga to follow up.

16.16 **Kaliro-Ivukula-Maziba Road 25Km**

Inspection of the road revealed that a number of sections that lacked proper drainage systems had been washed away by erosion as shown in the pictures below:-
In their response, management explained that by the time of inspection (05 November 2010), the works had been long completed (on 02 December 2009) and that from the time of completion of works to Inspection time, no routine maintenance had been carried out and hence erosion was bound to take place. He indicated that the Chief Administrative Officers (CAO) for Kaliro and Namutumba had advised on the need to carry out follow up routine maintenance.

16.17 **Review of Budget Monitoring Reports**

A review of the budget monitoring reports revealed the following issues regarding district and urban roads:-
(a) **Low absorption capacity of funds**

Of the 9 Districts and 2 Town councils that had received funding, only 3 Districts had utilised more than 50 per cent of the funds (Apac, 81.1 per cent, Mbale Municipal Council 57.3 per cent and Tororo Municipal Council 66. per cent). The rest showed poor performance in the utilization of the funds released to them, namely: (Amuru 23.4 per cent, Bududa 17.5 per cent, Busia16.9 per cent, Kamuli 29.7 per cent, Kabarole 37.1 per cent, Kumi 29.7 per cent, Kasese 48.2 per cent, Lira 28.6 per cent and Soroti 4.6 per cent, Apac 0 per cent). The physical works on the selected roads were lagging behind contract time in most of these districts. The reports highlight slow progress of works on several roads. In some cases, the works executed had not been paid for.

In his response, the accounting officer attributed this to lack of qualified technical staff in Local Governments which contributed to delay in:-

- Assessing the road work needs, preparation of tender documents and procurement.
- Certification and processing payment certificates for contractors.

In addition, a majority of Local Contractors lacked technical and financial capacity to execute road works.

I have advised management to ensure that proper monitoring mechanisms are put in place to ensure that the districts utilize the funds released to them.

(b) **Poorly executed works**

Poorly executed works were also noted on a number of roads including Muhokya-Kibiri road in Kasese; Nyakatabazi-Kakinga, Kicucu-Lyamabwa had and Kakinga-kadindimo in Kabarole; Kumi-Malera, Kabukol-kamenya-Nyero, and Mukura-Mulera roads in Kumi; Barr-apac boarder in Apac, Naboa road in Mbale MC; Bazaar street and Hillary and Jowett roads in Tororo MC. The anomalies that were noted include:-
• narrowness of the roads in some sections,
• placement of gravel on grassy surface,
• trees and stumps left on shoulders and side drains,
• gravel damped not compacted,
• site abandonment without completing the works on Mukura-Mulera and Naboa roads,
• gravel stripping,
• insufficient fills and silted culverts,
• signposts not installed,
• excessive road bleeding,
• new potholes developing,
• poor quality of patched work,
• unsuitable use of stone dust material and excessive bitumen,
• depression on newly installed culverts.
• excessive stone stripping due to poor compaction methods using a tipper for Hillary and Jowet roads in Tororo Town Council.

The anomalies may have resulted from lack of adequate monitoring and supervision mechanisms during the execution of the works and could lead to waste of funds.

The Accounting Officer attributed this to lack of adequate monitoring and supervision due to lack of sufficient manpower at the Local Governments under the old Ministry Structure. However, the Ministry had been restructured and the recruitment of more staff had been undertaken and was in position to adequately carry out regular monitoring and supervision of Road Programmes of Local Governments. In addition the Ministry had initiated the process of establishing an agency (District Urban and Community Access Roads Agency) which would be dedicated to overseeing the implementation of Local Governments Roads Programmes.
(c) **Lack of maintenance**

The report also pointed out issues regarding lack of proper maintenance of the roads. This may lead to faster deterioration of the works done especially where these works are on the gravel roads. Noted were over grown grass on the road shoulders and drains and blocked culverts. It should be noted that all districts receive separate funding for maintenance of roads (labour based) under the PAF programme.

The Accounting Officer explained that this was mainly due to the method of carrying out routine maintenance using labour based contractors without adequate field staff to closely supervise the contracts. The Local Governments Works Departments had limited field staff to effectively handle the supervision. The Government had since realized the shortfall in field staff and the contracting system and decided to re-introduce Road Gangs for execution of works on a man per two kilometer basis supervised by Road Overseers and Road Inspectors as contained in the Policy document on re-introduction of Road Gangs.

I have advised the accounting officer to ensure that Districts are advised to plan for maintenance of the roads using the PAF funds disbursed to them monthly for road maintenance under the labour based contracts.

17.0 **DEFENCE**

17.1 **Amisom Funding (USD.27,802,360)**

According to the commentary by Head of Accounts, the Ministry received a total of US $ 27,802,360 to cater for Amisom support operations in Somalia. This amount was not appropriated by Parliament as required by Law, and has not been recognized in the financial statements thus understating the operations of the Ministry. In addition, the amount has been treated as classified expenditure.
I advised the Accounting Officer to ensure that all funds available for spending by the Ministry are appropriated by Parliament in accordance with the Law and properly recognized in the financial statements.

The Accounting Officer explained that the Amisom funding will be appropriated by Parliament and included in the Ministry budget for the financial year 2010/11.

She also stated that the balance on Amisom bank account at the year end of the equivalent of Shs.11,466,869,387 was included in the cash balances in the Statement of Financial Position for the financial year under review.

I however explained to her that this disclosure did not amount to full recognition of the funding in the financial statements.

17.2 Payables

The commitment control system requires the Accounting Officer only to commit the Ministry after confirmation of availability of funds. It was however, noted that the Ministry continued to incur bills without first confirming the availability of funds. During the financial year under review, the Ministry incurred arrears amounting to Shs.18,593,406,200 representing 3.4 percent of the approved budget thereby bringing the cumulative outstanding domestic arrears to Shs.51,393,296,989. This also represents an increment of 28 percent of the previous arrears position. Lack of control over the increase in arrears can lead to litigation.

I have advised the Accounting Officer to adhere to commitment control system to avoid further accumulation of arrears.

17.3 Expenditure on UGABAG III Operations

The Ministry continued to incur expenditure relating to UGABAG operations, which has its funding from the African Union. A review of sample of the related documents revealed that the Ministry spent Shs.1,033,820,400 on procurement
of food stuffs at Singo Military Training School but by the time of audit the amount had not been refunded.

Funding activities which are outside the Ministry’s approved planned activities should be discouraged as it constraints the Ministry in terms of resources needed to finance its programmes. This practice may explain the ever recurring huge supplementary requests made by the Ministry to finance its operations.

In her response the Accounting Officer promised to recover the amount from Amisom and use it to offset the outstanding commitments on foodstuffs. I await confirmation of recovery.

17.4 **Procurement of Uniforms**

A total of Shs.3,331,124,500 was paid to a textiles company for supply of uniforms. However, the contract agreement between the Ministry of Defence and the supplier was not availed for review. Therefore I was not able to ascertain the terms and conditions under which the supplies were made. It was also noted that the Ministry used direct procurement method instead of international open bidding method which was the most appropriate for a procurement of this magnitude. As a result, the procurement was not subjected to the basic principles of PPDA which include fair competition and transparency.

I did not obtain evidence that the deviation from the use of the recommended method was approved by PPDA as required under the PPDA regulations. The use of direct procurement restricts competition hence exposing the Ministry to the risk of unfavourable pricing.

The Accounting Officer explained that the company was the sole army uniform manufacturer in the country and was awarded tender in line with the wider government policy of supporting the local textile companies for growth of cotton and textile sector of the national economy.
I advised management to ensure compliance with procurement laws for all procurements undertaken by the Ministry.

17.5 **Disposal of Kitante Land**

It was established that the Ministry land at Yusuf Lule Road occupied by CMI was allocated to an investor on condition that he constructs CMI headquarters estimated to cost Shs.6,000,000,000. However, a review of correspondences on file revealed the following matters;

- Kitante Land was allocated to the investor in exchange for Shimon land which was reportedly allocated to him earlier by the Uganda Land Commission. There was however, no evidence on file to show that the investor paid any money to Uganda Land Commission for the purchase of the Shimoni land.

- The disposal of the government land (Kitante) was undertaken without proper valuation. By the time the offer of Shs.3 billion was made to the investor, the land had not been valued. Following the offer, the Chief Government Valuer valued the land measuring 6.204 Hectares at Shs.20,213,000,000. Hence, the offer of the land to the investor at Shs.3 billion was far below its market value. By swapping Kitante land valued at Shs.20 billion with the CMI headquarters construction valued at Shs.6 billion, government is likely to lose almost Shs.14 billion in the deal.

Disposal of government land should be done in a transparent manner in accordance with established procedures to guarantee value for money.

The Accounting Officer explained that the allocation of this public land was done by Uganda land Commission, an institution that is constitutionally mandated to handle matters of allocation of all public land.
17.6 **Purchase of Lugazi University**

The Ministry acquired land and buildings comprising of Lugazi University for a purchase consideration of Shs.13,500,000,000. The intention is to turn the University into a Uganda People’s Defence Forces Military Engineering College. However, a review of various correspondences on file revealed the following matters;

- The MOD did not provide for purchase of the University in its procurement plan for the year. The Ministry committed government to the tune of Shs.13.5 billion in respect of the purchase consideration before ascertaining the sources of funding.

- The transaction was initiated by the vendor on 12\(^{th}\) March 2010 and by 07\(^{th}\) July 2010 the Ministry had already paid the first installment. Committing government to contracts of this magnitude without undertaking due diligence exposes the Ministry to the risk of financial loss.

- It was also noted that the draft sales agreement did not include the movable property which was to be valued later by a valuer agreed upon by both parties. This implies that the transaction was a conditional sale agreement which may push the purchase price upwards.

I advised the Accounting Officer to critically review this entire procurement and ensure that all the necessary valuations are undertaken in accordance with the PPDA rules and guidelines.

17.7 **Construction of Health centre III at Magamaga Army General Depot**

The commandant of Engineering Brigade was paid Shs.194,573,064 representing 96.5 percent of the contract sum of Shs.201,634,191 to cater for the construction of a Health Centre III at Magamaga cantonment. The amount represents 96.5 percent of the agreed contract sum. According to the
commandant of the brigade, the work was to last only 90 (ninety) days after release of the funds in December 2009.

A site visit carried out a year later revealed that the construction work had not been completed. For instance, all the installations of the water system were not done, a collection tank was delivered but not installed; the compound work was incomplete and painting had not been undertaken.

Although management indicated during our meeting that the work had been completed, our subsequent visits revealed that the works were still pending. I advised the Accounting Officer to improve on the supervision and monitoring of the civil works projects to ensure that the expected deliverables are achieved within the agreed timelines.

17.8 **Masaka Armoured Brigade**

**Construction works**
A company was contracted to carry out construction works at Masaka Armored brigade at the cost of Shs.6,177,707,594. During the financial year 2008/2009 Shs.474,576,271 was advanced to the company to commence work. However, audit inspection carried out on 1st November 2010 revealed that the contractor had abandoned the site due to a disagreement with the Ministry. The Accounting Officer explained that the Ministry had attempted to resolve the matter out of court without success.

I advised the Accounting Officer to handle the matter expeditiously with the contractor to avoid any loss to government.

17.9 **Renovation Works at Soroti Airbase**
A total of Shs.39,924,120 was advanced to the Commander Air base in June 2010 for the construction of water toilets and renovation of office block at Soroti Airbase. However, it was noted that although the works were to be carried out by the Engineering brigade, the advance was made to commander Airforce and
by the time of writing this report, accountability documents had not been submitted for verification.

It was also observed that the building is owned by Soroti Flying School and therefore the terms under which the Ministry renovated it was not clear.

In absence of accountability documents, I was not able to confirm that the advance was put to proper use.

17.10 **Supply and Installation of Workshop Tools and Equipment**

A company was awarded a contract to supply and install workshop tools and equipment at a cost of Shs.380,071,152. On 24th June 2010, Shs.255,207,200 was partly paid to the company. The unsigned delivery note no.447/10 dated 11th June 2010 indicates that all items worth Shs.380,071,152 were delivered and received.

However, a physical inspection carried out at Magamaga on 18th October 2011 revealed that item no. 1 Spraying Paint attached to Mix room worth Shs.176,190,811 was not available although the delivery note indicated that it had been delivered. The whereabouts of the item were not explained.

I advised the Accounting Officer to investigate the matter and take appropriate action.

17.11 **Utility Payments**

17.11.1 **Electricity Bills – UMEME**

During the year, a total of Shs.8,232,838,316 was paid to UMEME in settlement of power consumption by the Ministry. The available information indicates that Shs.6,784,280,791 was to cater for settlement of bills for financial year 2009/2010 and Shs.1,448,557,525 for domestic arrears of previous years. I was
not availed with a reconciled position of outstanding bills at the beginning of the financial year to justify the payment of Shs.1,448,557,525.

It was also noted that a deposit of Shs.644,986,275 included in the payment of Shs.6,784,280,791 had not been credited to the Ministry accounts by the time of writing this report.

The Accounting Officer explained that reconciliation of the outstanding UMEME arrears was being undertaken by a team composed of both the Ministry and UMEME officials and would soon issue a report. Their report is awaited.

17.11.2 Water bills (NWSC)

National Water and Sewerage Corporation submitted bills amounting to Shs.2,806,458,872 for the financial year 2009/2010, however the Ministry paid Shs.2,371,548,825 only leaving Shs.434,910,047 not paid on grounds that some bills had been disputed. I did not obtain a reconciled position between NWSC and the Ministry at the year end to enable me investigate the amounts disputed.

17.12 Lack of Clear Measurable Outputs

A review of the MOD Policy Statement and annual workplan revealed that some of the planned activities for the year under review had no measurable indicators. Such outputs included the following;

- enhanced logistical support,
- improved UPDF welfare,
- enhanced capacity in UPDF,
- trained and operationalise the UPDF fund.

It was noted that the targeted outputs were very subjective for purposes of evaluation. For instance, in the ministerial policy statement for the financial year 2009 and 2010 it was stated that 3,000 privates and 350 officer cadets were recruited and trained. However, the targeted outputs for the year against which performance would be measured were not stated. It was also stated that 118
command vehicles were procured during the year to improve soldiers’ welfare. However, it was not clear as to whether an increase in number of motor vehicles amounts to improvement in soldiers’ welfare. We also noted that the UPDF Fund had not been operationalised. Regarding the targeted output for enhancing the capacity of UPDF, it was not possible to measure to what extent UPDF had generated new capabilities and how it had been consolidated.

Without clear measurable indicators, assessment of performance becomes difficult.

The Accounting Officer explained that due to the sensitivity of the Ministry some planned outputs could not be printed for public consumption. I have advised the Ministry to liaise with the Ministry of Finance and agree on what should be published.

17.13 **Failure to use Local Purchase Orders**

It was observed that there were many instances where the Ministry disregarded the use of Local Purchase Orders (LPOs). Procurements especially for foodstuffs were done on the strength of call off orders and LPOs were only issued at the time of payment.

The Accounting Officer attributed this problem to the IFMS system which could not process an LPO without sufficient funds on the system. It was explained that call off orders were issued against framework contracts in case of repetitively required goods and services such as foodstuffs.

I advised the Accounting Officer to seek guidance from the Accountant General’s Office in developing standard procedures for such procurements.

17.14 **Audit Inspection**

During inspections of Divisions and units of the Ministry of Defence, the following matters were observed;
(a) **2nd Division Mbarara**

**Land**
By the time of inspection, the boundaries of the land had been opened, but the land title was yet to be obtained.

**Sewage system**
The construction of the sewage system was yet to be completed, the captain’s quarters, the quarter guard and the lagoon were yet to be completed. The commandant on site revealed that work on the sewage system was likely to be completed in 2011. However, in view of the expansion of the population in both primary school and technical institute there was need for this work to be urgently completed.

(b) **Bihanga Training School**
The school was found to be operating under a lot of hardship and the following were highlighted;

- The school was receiving Shs.1,500,000 per month as training allowance which was insufficient to meet the students/ instructors needs. Management attributed the insufficient funding to inadequate funding of the Ministry as a whole.

- There was a shortage of accommodation and the sewage system was poor. Management explained that accommodation for all Ministry institutions was being addressed through the implementation of the Defence Strategic Infrastructure Investment Plan (DSIIP).

- The School was using a generator because it was not connected to Umeme grid. The commander’s opinion was that the Ministry could liaise with UMEME
to extend power from Ishongora Town Council, and save on the usage of fuel which had become expensive.

- The School had not paid its creditors for the supply of foodstuffs for the seven months. Management indicated that American Embassy which was providing direct support to the school under an arrangement between EU and the American Embassy was handling the matter.

- The storage facilities were poor; most of them were constructed using iron sheets and required repair.

- The land where Bihanga training wing is situated had its boundaries opened and surveyed but the land title had not yet been obtained. The land which has an acreage of 5 (five) square kilometers still has encroachers on it although mark stones had been planted. Management explained that the processing of the land title was ongoing.

(c) **305 Brigade – Hima**

- KIRARU Land which is about three acres was occupied by a Coy of 21st Battalion. The claimant was demanding Shs.88 million from the Ministry.

The status of land occupied by UPDF was as follows;

<table>
<thead>
<tr>
<th>Location</th>
<th>Audit Remarks</th>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hima Land</td>
<td>The land had been surveyed, but there were some illegal people/civilians still claiming about 670 hectares of the land.</td>
<td>• 50 hectares acquired from private individuals.   &lt;br&gt;• Plans underway to compensate the rest.</td>
</tr>
<tr>
<td>Kanyatsi Land</td>
<td>KANYATSI being occupied by a proton of 21 battalion. This is about ¼ of an acre and was being claimed by the church authorities.</td>
<td>• Land belongs to church. &lt;br&gt;• UPDF was paying rent for using the land.</td>
</tr>
<tr>
<td>Rusesse Land</td>
<td>RUSESE Land where the headquarters of 21 battalion had three people claiming 18 acres.</td>
<td>• This was to be acquired for 21st Battalion. Owners would be compensated</td>
</tr>
</tbody>
</table>
MUHOTI Land is encroached on. KASESE OFFICERS’ MESS: - This was also being claimed by a civilian. Land in Kyenjojo district was recently acquired, the boundaries had been opened. The land was surveyed but they were unable to verify the land title.

Land was surveyed. The Ministry Land Board was sorting out the problem of encroachment.

KARUGUTU Land which accommodates 53 battalion headquarters is about 20-30 hectares and had 75 civilians claiming ownership. KANYAMULEMA barracks was equally being encroached on.

Land to be acquired for 53 Battalion. This was part of Defence infrastructure strategic investment plan.

(d) **Uganda People’s Defence Air Force**

Audit inspection revealed that all the land occupied by Uganda people’s Defence Air Forces did not have land titles except Katabi Barracks. These include; Kitara Detach, Bulime Kitasha in Entebe municipal own council, Lakaya Airstrip, Sango Bay-Mutukula in Rakai District, Nakasongola and Nabugabo in Masaka district.

There is risk that this land could easily be taken away from UPDF since most of it was already encroached on by individuals and investors.

It was also noted that land at Guda – Entebbe lake soar which was formally a training wing for Internal Security Organization (ISO) was sold to investors by Entebbe Local Administration under unclear circumstances. The status of land occupied by UPDF was as follows;

<table>
<thead>
<tr>
<th>Location</th>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katabi Barracks</td>
<td>• Land allocated to Katabi Gombolola and to private developers.</td>
</tr>
</tbody>
</table>
Lukaya Airstrip

- Land encroached on by Lukaya Town Council which had built a Prison Health Centre, Primary School, Public market and pine plantation.
- 310.08 acres were still available for Ministry and have been fenced off.

Kajansi Airstrip

- Land belongs to NEMA

Sango-Bay Mutukula

- Owners had since claimed their land.

Nakasongola

- Opening boundaries was ongoing

Gulu Airbase

- Land belongs to Civil Aviation Authority

Gude-Entebbe Lake Shore

- Land has since been allocated to private individuals by Entebbe Municipal Council

Nabugabo Lake

Nabugabo- Butabika S/C

- Surveying of this land was scheduled for April – May 2011.

(e) **Mubende Rehabilitation Centre**

- **Land and buildings**

  Mubende Rehabilitation centre occupies three areas with different pieces of land. These are Mubende Rehabilitation centre, Ntungamo of Mubende which is about four square miles and Kayanja Barracks in Kyankwanzi District.

  Apart from Ntungamo land, all these pieces of land did not have land titles. The boundaries had never been surveyed and civilians had encroached on it from all sides. Some encroachers had started constructing permanent houses and planting trees.

- **Sewage system**

  The sewage system was poor. All the pit latrines were full creating a risk of an epidemic if not urgently attended to.

- **Construction of orthopedic workshop**

  Construction of the orthopedic workshop was carried out by the engineering brigade with the assistance of the South African Government. The
building/structure was completed in July 2010. However, the following were not put in place.

- There was no connection to the sewer.
- The structure was yet to be fenced off.
- Rain harvesting tank not yet installed.

The Government of Uganda was yet to provide inputs required for the workshop to become operational. Other challenges include;

- The centre experienced inadequate funding. Power was also become a problem with 42 electric poles rotten and likely to fall any time.
- The underground cable from the main transformer to the main power house sustained a short circuit. It needed replacement.
- The water pump in the officers’ quarters could pump water due to low voltage.
- Some parts of the barks experienced dim power.

(f) **Singo Training School**

Singo military training school sits on three square miles of land, 21 hectares of which belong to Ministry of Defence, the rest belongs to individuals.

The survey work was carried out but the ministry could get title for only 21 hectares. It was also observed that;

- The barracks had limited space for accommodation given that there were different training programmes for different categories of personnel.
- There was shortage of sanitation facilities given the number of recruits at the camp.
(g)  **Masindi – Field Artillery Division**

Wasteful expenditure: Construction of the gun sheds
Shs.487,000,000 was paid to a company for the construction of a gun shed during 2007/2008 financial year. It was noted that the gun shed collapsed before being completed. In a related development Shs.189,000,000 was paid to another company for construction of another gun shade. Although the shade was completed, it had not yet been put to proper use because of lack of access road and parking yard. The construction was done during 2004/2005 financial year.

(h)  **Nakasongola School of Air Defence**

Construction works
In my previous report I stated that the Shs.100 million released for this activity was diverted. An inspection revealed that the gun shed was under construction by the engineering brigade.

It was revealed that 150 bags of cement which had been brought to the site were taken away to an unknown destination. Several guns remained outside in the yard unattended to.

(i)  **1st Division Kakira**

Lack of Gun Shed
The Ministry of Defence acquired various guns. However, the division did not have a gun shed. The guns were consequently being stored in the commandant’s house and in an improvised structure. Also noted was the status of the storage facilities which were appalling. The Ministry should address the matter.

17.15  **Verification of food supplies by Internal Audit Unit**

Deliveries were being verified by the receiving committee in divisions and units without the participation of the Officer in Charge of bills. Internal Audit was depending on documentary evidence provided by the committee for reliance.
With continuous absence of internal audit in witnessing and physical verification of food supplies, there was a likelihood of under supply and acceptance of poor quality deliveries.

17.16 **Jinja Army Boarding Primary School**

In 1988 the Directorate of Formal Education under the commissariat of the army was established among others to coordinate educational activities in the UPDF. Accordingly, the Army Boarding Primary School at Jinja was established basically to take on orphans of fallen comrades and those officers and men in active service who could not bear responsibility of raising and educating their children.

The School had a total of 1491 pupils, of which 1,106 were boarders, and 385 day scholars. The school had 97 teaching and non teaching staff. The following matters were observed;

- The budgeted number of patients in the school is 09 yet a sample of 80 days had accumulation of 167 patients which gives an average of 14 patients a day.
- The school pickup broke down and efforts to get another one were futile.
- The school menu was the same all year round. The rate of Shs.1,500 per day for each pupil was little given the increasing food prices.
- There was no facility to provide boiled drinking water to the pupils.
- The toilets were few in number and are not in good shape.
- Accommodation for teachers was also a problem; rent in Jinja was high in comparison to the salaries earned by the teachers.
- The school had only one computer.
The school was not getting stationery from UPDF, but depends on reams of papers brought by Primary six and seven pupils.

The school had no play field for recreation activities.

The wiring system for power in dormitories needed to be re-done and security lights in sensitive places like toilets were not functional.

The roof tiles for all the school blocks and school fence needed repair.

Insufficient funds advanced to the school may render insufficient service provision.

17.17 **Rubongi Army Secondary School – Tororo**

Rubongi Army Secondary School was established on 24<sup>th</sup> March 2004. The major aim of its establishment was to decongest Nakasongola Army Boarding Secondary School which was the only army boarding secondary school founded by UPDF at that time. It is a government aided school, mixed and boarding with both Ordinary and Advanced levels under the Universal Secondary School (USE).

The school caters for orphans of the UPDF fallen comrades and children of soldiers especially the lower ranks and those in operation areas. The school had a population of about 700 students, 41 teachers; both soldiers and civilians and support staff from the Ministry.

Financial management was being done by a Bursar who was posted directly from the Ministry of Education. However, management of logistics was being handled by UPDF personnel. The following matters were observed;

- There were no daily requisitions from the cook house.
- There was loose supervision in the cook house to mitigate the risk of disappearance of food items.
- The school was not fenced so students found it easy to escape and controlling them during power blackout was difficult.

18.0 **INTERNAL AFFAIRS**

18.1 **National Security Information System (NSIS)**

**Background**

The Ministry of Internal Affairs signed a contract of Euros 64,231,371.49 with a company on 19th March 2010, for the supply of technology and other related services for the National Security Information System (NSIS). The goal of NSIS was to set up a comprehensive population data bank for efficient and effective application and easy access by approved users. The implementation is supposed to be carried out in three phases as shown below:

Phase one focused on updating the National Voters register, personalization and issuance of the first national identity cards and had the following milestones:-

- Procuring the equipment and related services.
- Updating the National Voters register through the enrolment of about 3.5 million voters not yet registered.
- De-duplication of existing voter’s database with accepted applications.
- The personalization and issuance of ID cards for efficient proof of identity (POI), age domicile for citizens and residents.

Phase two targeted national-wide mass enrolment and creating, permanent structures and infrastructure for continuous update of the NIR through the registration of vital statistics.

Phase three would involve the modernization and integration of all population registration and identification systems for instance, citizenship, birth, marriage,
driving permits and dearth thus paving the way for e-government services and other services.

We noted the following weaknesses in the project implementation:

18.1.1 **Procurement**

It was noted that the procurement of the contractor was undertaken through direct procurement following a waiver by PPDA. PPDA granted the waiver citing security concerns and urgency as justification. The use of direct procurement for a contract of this magnitude exposes government to the risk of not achieving value for money through unfavourable pricing. There is also a risk of government being locked into long term contracts with vendors who may be inefficient or fail to perform leading to wastage of resources. The Accounting Officer explained that the system being of national security concern, there were steps taken to mitigate the identified risks.

I advised Management that in future proper planning of projects of this magnitude should be undertaken to allow fair competition in the procurement process. Further, implementation of such contracts should be closely supervised to mitigate the identifiable risks.

18.1.2 **Feasibility study**

It is good practice for the initial scope of a project of this magnitude to be established through a feasibility study, align it with the IT architecture and develop an initial high-level project plan. Project approval should be based on the feasibility report. Evidence was not provided to show that a Feasibility study was carried out and that the project approval was on the basis of a feasibility study report. There was therefore a risk that;

- the contractor may provide a solution that may not solve the user problem or may need heavy customization or bespoke work in future.
- project cost may also run out of control and value for money may not be realized.
the final users of the system may not get the desired system to solve their problem and may therefore underutilize or not fully adopt or completely abandon the system.

The Accounting Officer explained that the Ministry in consultation with identified stakeholders prepared a roadmap. I advised the Accounting Officer to ensure that information is put together for the proper management of the project.

18.1.3 **Initiation of the Project**

Best practice requires that for any investment in IT, there should be proper planning beginning with project initiation. The initiation phase addresses preparation of the initial concept, business case, scope, creation of project team, and preparation and approval of budget and capital expenditure requests.

It was noted that apart from establishing the project team (Contract document), there is no documentary evidence to show that the processes required in the project initiation were properly carried out and documented as required by best practice. Proper documentation of communication and escalation procedures (A Communication Plan) were missing though identified in the Risk Matrix for Phase I in the Project Road Map. A detailed budget for the stated sum of $57,383,850 was also missing in Project Road Map document provided. There was also no evidence that the steering committee was involved at every stage of the project since records of minutes of meetings were not provided.

The Accounting Officer should ensure that the project proceeds after proper planning to ensure that all stakeholders at every stage are identified and involved.

18.1.4 **User Requirement Specification**

A detailed statement of user requirements should also be developed aimed at the user getting the desired functionality out of the designed system. It provides a basis for design work, suppliers to submit proposals and acceptance testing criteria. It is required that the users be consulted and involved at all levels.
including, computer operations, building services, personnel, training, security, legal, and audit. During this phase, the requirements definition, describing the specific data attributes and business processes, is prepared.

There was however no evidence that:-

- all potential users at all levels were involved.
- the existing system manuals were consulted,
- the information needs (current and future) were clearly identified
- whether measurable performance criteria were identified and
- that the users signed off the user requirements statement.

This implies that the users may not be easily brought on board since their requirements were not initially identified. The system itself may not address the requirements of the users resulting into loss of funds invested in the system.

18.1.5 **Detailed project plan**

According to section six of the solution proposal of the project contract, a detailed project plan was supposed to be developed in close cooperation with the customer within the first phase of project implementation.

Although, the first phase of the project ended in August, 2010, the detailed plan had not been prepared by the time of audit in January 2011. There is a risk of the project failing to achieve its intended objectives because it has not been well planned.

Management was advised to prepare a detailed implementation plan as soon as possible.

18.1.6 **Payments to supplier**

According to section 7.1 of the solution proposal, the agreed price of the project was Euros 64,231,371 payable as follows;
Euros 23,000,000 down payment within seven days from date of contract signing; Euros 41,231,371 payable in a period of 24 months in eight equal quarterly installments, first payable three months after contract signing, subsequent installments payable every three months. In case of payment delays, an additional monthly fee of 1.5 percent of the invoiced amount would be charged. The first installment was paid in June 2010, using a contribution of Shs.30,000,000,000 from the Electoral Commission and Shs.27,000,000,000 borrowing from Bank of Uganda. We were however, not availed with the authority allowing the Ministry to borrow from Bank of Uganda.

In addition there was no payment of quarterly installments. There is a risk that the penalties may increase the project cost.

The Accounting Officer should liaise with all stakeholders to ensure that there is timely funding as per project agreement.

18.1.7 **Inspection of delivered equipment**

According to TAI 120, part II, the store-keeper is supposed to examine all boxes, within 24 hours after receipt of inventories. Packages are supposed to be opened and the content examined and checked against receipt vouchers to satisfy the storekeeper that the inventories are in good condition, correct in quantity and of the required specification, after which he prepares and signs certificate of examination with a second officer who witnesses.

We noted during the audit that there was no inspection carried out on the equipment when it was delivered by the supplier, and hence no certificate of inspection was prepared. There is a risk that the supplier could have delivered equipment and software that did not conform to the specifications in terms of quantity and quality.

Management should ensure that inspection of the delivered boxes is carried out.
18.1.8 **Storage of equipment**
We noted during the audit that the NSIS equipment was stored in a storeroom that was dusty and lacked air conditioning. Given the sensitivity of IT equipment to adverse conditions, there is a risk that the equipment may deteriorate leading to wastage of the funds that was used in its procurement.

The Accounting Officer was advised to immediately identify storage facilities with appropriate conditions for the IT equipment.

18.1.9 **Implementation roles and responsibilities**
According to the project implementation details roles and responsibilities, the project was supposed to be implemented by three committees namely: cabinet standing committee headed by the 3rd Deputy Prime Minister and Permanent Secretary MOIA as Programme Manager; Steering committee headed by the Minister of Internal Affairs, technical committee and stakeholders committee.

The cabinet standing committee was supposed to meet bi-monthly, the steering committee monthly, and the technical committee bi-weekly.

However, I was not presented with minutes of meetings. In absence of minutes I could not confirm whether the committees were meeting as required by the project implementation details.

There was therefore a risk that problems that arise during implementation may not be attended to on time.

The committees involved in the implementation of the project should meet as scheduled to minimize any shortcomings that may arise during the implementation period.
18.1.10 **Status of project implementation**

According to the project document and contract, the first phase of the project was supposed to have been completed by August, 2010, with the display of the voters register, and the second phase was supposed to begin immediately after. Although the first phase was completed on time, by the time of audit in January 2011, the second phase had not started, and the supplied equipment was therefore not being put to use.

In addition some activities which should have been undertaken during the year were not implemented as shown below;

- Establishment of the personalization centre, the data centre, recovery site and the registration secretariat.
- Training
- Piloting
- Delivery of four million virgin national identity cards
- Regulations/Gazetting
- Sensitization

There is a risk that the project implementation may not be completed on time resulting in extra costs.

18.1.11 **Progress Reports**

Although the implementation of the project had been going on since March, 2010, no progress report had been prepared to show the achievement and set backs of the project. In absence of progress reports, it becomes difficult to assess the performance of the project.

I advised the Accounting Officer to ensure that the Project is closely supervised and managed in accordance with the established contract management procedures to forestall likely problems with the project implementation.
18.2 **Funds Transferred to Bank of Baroda**

A total of Shs.1,045,402,905 was transferred to Bank of Baroda account No. 2106000010 at the end of the year for various commitments including the supply of chemical fume hood toxicology lab equipment and assorted specialized laboratory equipment for the government Laboratory. However, by the time of audit, goods valued at US $128,035.60 and GBP47,109.95 had not been delivered.

Although it was explained that the monies were still intact on the bank account, I was unable to confirm the assertion because the bank statements were not availed for audit. Further, the amounts were not disclosed in the financial statement either as cash balances or receivables.

The Accounting Officer was advised to ensure that proper disclosures are made in the financial statements and the delivery of the items pursued.

18.3 **Immigration**

18.3.1 **Immigration Directorate and the Board**

A review of the Directorate operations in December, 2010 revealed that the directorate had not undertaken the following key functions required under the Immigration Act;

- The Board had not carried out registration of citizens including issuing of National Identification Numbers and National Identity Cards as required by Section 27(1) of the Act.
- The Board had not put in place a National Registration Secretariat contrary to Section 31 of the Act.
- The Board had not started issuing Aliens Identity Cards contrary to Section 56 of the Act, 69 and 70.
- Section 53(4) of the Act requiring aliens who intend to enter the country to process the entry permit before entry was still being flouted as the aliens entered the country before being issued with entry permits.
The Accounting Officer explained that the roadmap for the issuance of National IDs had been worked out but funds to enable the Directorate actualize the requirements were not available.

I advised the Accounting Officer to ensure that all the key requirements under the Act are operationalised to enable the directorate deliver its services.

18.3.2 **Immigration Policy**

In my Report to Parliament for the year 2008/09, I raised the issue regarding lack of an immigration policy. The Accounting Officer explained that by the end of 2009/2010, an immigration policy would be in place. However by the time of audit in December 2010, the Ministry had not made progress on the matter. Without an immigration policy, it becomes difficult for the Ministry to control the increasing number of immigrants flocking the country illegally.

The Accounting Officer explained that a draft policy would be ready for government consideration by May 2011. I urged the Accounting Officer to expedite the process.

18.3.3 **Non Compliance with the Uganda Citizenship & Immigration Control Act**

According to the Uganda Citizenship and Immigration Control Act Cap 66, non tax revenue collected by the Board should be retained by the Board as Appropriated in Aid. However, this requirement had been operationalised by the directorate at the time of audit in December 2010. This could explain why the directorate still faced the problem of inadequate funding for its operations. Further, the vote was not provided with a development budget to cater for its infrastructure needs and vehicles necessary for improving service delivery.

The Accounting Officer explained that he had written to the Treasury on the operationalisation of the Vote status envisaged under the Act. The outcome is awaited.
18.3.4 **Data Integrity and Data Recovery Planning**

Having a business continuity and disaster recovery plan for passport processing maintains the integrity of the Ministry’s data together with the operational services and processing facilities. It was however, noted that management had not put in place an effective business continuity and disaster recovery plan to enable it carry on with normal operations in case of a disaster. Although the operational systems were kept in a strong room, these facilities were still accessible by unauthorized personnel.

In absence of a business continuity and disaster recovery management plan, the risk of disruption of passport processing activities remains high.

The Accounting Officer was advised to put in place a proper back-up business continuity plan to enhance the integrity of the Passport processing system.

18.3.5 **Passport Services and Visa Issuance at Missions**

It was observed that the Ministry lacked an effective management control framework to properly monitor provision of passport services by the missions. The Missions banked money direct to the consolidated account and no returns were submitted to the Ministry for accountability. Further, the Ministry of Internal Affairs did not have its independent monitoring mechanism to properly enforce accountability.

Without an effective independent management control framework to monitor provision of passport services by missions, it is difficult for the Ministry to effectively account for the visa stickers and passports handled by the missions.

The Accounting Officer explained that the Ministry was liaising with Ministry of Foreign Affairs and Ministry of Finance, Planning and Economic development to streamline the process. The results of this process are awaited.
18.3.6 *Irregular and Poor Maintenance of Supporting Equipment for the Pisces System*

Audit inspections of the border posts reveal that the Pisces equipment (Air conditioners, UPS, Computer Peripherals) supporting the Pisces system had not been serviced. For example in Malaba, the system had been switched off for fear of a crush as the AC was not working. The same had happened at Busia Boarder post. Similarly, the Mutukula UPS and computers had not been serviced for a long time. In Katuna, although the system was working, staff had complained of non maintenance of the system for a long time and there appears to have been no immediate plans by the Ministry to do so.

Lack of servicing of supporting equipment posses a great risk to the Pisces system as it could lead to the malfunctioning of the system thus failing the objective of the project.

The Accounting Officer explained that the directorate was in the process of signing a framework contract for servicing and maintenance of PISCES system and computers. The outcome of this action is awaited.

18.3.7 *Compliance with Immigration Procedures*

The Ministry is mandated to establish a uniform rule of naturalization that sets the conditions of immigration & citizenship and to ensure fairness and integrity of the process by which immigrants enter the country legally. An audit inspection carried out to test the functionality of the immigration procedures revealed that the system of immigration was still very flexible and could easily be classified as a lax immigration system which could in the long run encourage the circumvention of immigration laws.

The following immigration issues were therefore noted:
• Most boarders except for Entebbe, Busia and Malaba had not been fenced off, and were still secured by access gates making it difficult to control incoming and outgoing traffic.

• Appearing before an immigration officer was still at the will of passengers as no serious checks were instituted at the boarders.

• Scrutinizing the information on the arrival and departure cards by Immigration officers were not being done as the cards were just stamped without checking what had been written on the card.

• The Directorate had not taken significant steps to stop in admissible travelers from entering the country and there was no secondary screening of immigrants in form of strategic checks.

• The Directorate of immigration had not laid down plans to evaluate the performance of boarder posts through a review process and boarder controls had not been assessed.

• Border posts in the various regions were still not networked as rejected immigrants at a border post could still find their way through another boarder post in the same region.

With a porous border and the continued laxity of staff the risk of any person entering and exiting the country is high.

I advised the Accounting Officer to endeavour to secure the funding to deal with these important national issues.

18.3.8 **Reconciliation of Entry and Exits**

Although data relating to entry and exit of immigrants is captured; the Directorate of immigration did not carry out a reconciliation of data on immigrants entering the country and those that left the country. This implied that the Directorate could not with certainty ascertain the number of immigrants in the country and those who had left the country.
This was attributed to lack of direct linkage between the departments of citizenship, legal, and immigration.

The Accounting Officer explained that the directorate has developed an ICT master plan and once funds are made available, interconnectivity with all immigration posts and regional offices will be in place and the Directorate will be in position to reconcile the data on immigrants. The outcome of this action is awaited.

18.3.9 **Construction of Malaba Immigration Post**

According to the internal audit report, an audit inspection carried out in November revealed that the Justice, Law and Order Sector Project had financed the construction of Malaba Immigration Post to the tune of over Shs.360,000,000. However, the works were not completed and construction was made in a wetland. Furthermore, the building remained abandoned and inaccessible.

This indicated weaknesses in contract management that can lead to wasteful expenditure.

The Accounting Officer explained that the delays were caused by administrative decisions relating to a new project called “One Stop Border Control Centre” under the East African Trade and Transport facilitation project to be funded by the World Bank. He added that they had at one time been advised by Ministry of Works to half the work but following advice by the Solicitor General, the project was cleared and the contractor had almost completed the works.

18.3.10 **Construction of Cold Storage Facilities by GAL**

The Government Analytical Laboratory is mandated to secure all the evidence in samples/exhibits it receives for analysis in cold storage. However, it was observed that although funds had been availed for the construction of the cold storage facilities, by the close of the year the facilities had not been constructed.
The Accounting Officer explained that although Shs.62 million was availed for the purpose the cheapest quotation was Pound Sterling 86,000. He however, indicated that the Directorate would prioritize the construction of the cold room facility in the financial year 2011/12.

I advised the Accounting Officer to continue liaising with the relevant authorities to provide the finances needed for the construction of the facility.

18.3.11 **Office Block Construction at Mpondwe Border Post**

The Ministry undertook the construction of an office block at Mpondwe border post. However, we noted the following short-comings at the office block:

- The contractor had not handed over the building and hence it could not be utilized.
- The walls and windows had developed cracks.
- The iron sheets used were gauge 30 instead of gauge 28 specified by the Bills of quantities (BOQ).
- Although the construction had been completed there was no road access to the building that is located some distance from the border making accessibility difficult.
- The toilet that was constructed looked so small, not properly constructed, and painted.
- The area around the entire plot was bushy and not well maintained.

The Accounting Officer explained that the works were verified by the Ministry of Works and paid for based on what was certified and that the contractor was under obligation to correct the defects as advised by MoWT before final payment was made.

I advised the Accounting Officer to ensure that the defects are rectified before the expiry of the contractor’s defects liability period.
18.3.12 **Contract variation at Afoji Immigration Border Post**

It was noted during the audit that the Ministry constructed an office block and two double room staff quarter at Afoji immigration boarder post at an initial contract sum of Shs.91,667,973 [VAT inclusive]. However, extra works of Shs. 51,813, 679 were undertaken without the approval of the contracts committee. At the time of audit only 20 percent the contract sum had been paid to the contractor.

In addition the ministry did not have a land title to confirm ownership of the land, although the land had been surveyed. The Accounting Officer explained that the extra works had not yet been paid for pending approval by PPDA of the variation.

18.3.13 **Land title for Atiak Immigration Border post Office Block**

The Ministry contracted a Company to undertake the construction of an office block and two double roomed staff quarters at Atiak immigration boarder post on the land that was provided by the Gulu Local Government. The construction started in October 2008. It was however, noted during the audit that although construction had started and the buildings had been roofed, the Ministry did not have a land title for the land.

There is a risk of losing the investment in case of failure by the Ministry to secure the land title.

The Accounting Officer explained that the Ministry was in the process of having the land surveyed and the land title acquired. The process of acquiring the land title should be expedited.

18.4 **Unacknowledged Remittances of Tax**

The Income Tax Act requires that statutory deductions (P.A.YE) be promptly remitted to URA. During the year under review Shs.84,614,233, was paid to URA, however, there were no URA receipts acknowledging receipt of the funds.
In absence of receipts, I was not able to confirm that the taxes were received by the tax body.

I advised the Accounting Officer to follow up the matter with URA and ensure that the receipts are obtained.

18.5 **Non Deduction of 6 Percent Withholding Tax**

The Income Tax Act requires that 6 percent withholding tax deducted be recovered from payments made to qualifying providers of goods and services. It was however noted that Shs.3,228,480 was not deducted from a Cleaning Services Company. This attracts penalties by URA.

I advised the Accounting Officer to ensure that statutory deductions are always effected and remitted promptly to URA.

18.6 **Uncollected Non Tax Revenue**

The Ministry signed a contract with a firm for the management of the staff canteen for one year with effect from May, 2008 to May 2009 at a monthly rental fee of Shs 550,000 excluding costs of power and water which were to be met by the firm. The agreement was later terminated for breach of contract as the tenant was not paying the agreed rental fees. At the time of termination, the amount owed by the company was Shs.9,350,000. It was however observed that only Shs.1,925,000 had been paid by the tenant leaving Shs.7,425,000 outstanding by the time of audit. The tenant was also not paying for electricity and water contrary to the rental agreement.

The Accounting Officer explained that two reminders had been sent to the company but no response had been received by the Ministry.

I advised the Accounting Officer to consider seeking legal redress.
18.7 **Audit Inspections**
I carried out inspections of the immigration boarder offices at Malaba, Busia, Katuna, Mirama hills, Mpondwe, Paidha, Goli, Vurra Oraba, Afoji, and Atiak. A number of short-comings that are bound to affect the performance of the organization were noted and are highlighted below:

18.7.1 **Accommodation**
It was noted during the audit that staff were not provided with proper accommodation. Some staff were accommodated in URA houses while others had to rent houses that are far from their stations. Management was advised to endeavour to provide adequate accommodation to its staff.

18.7.2 **Revenue**
The Immigration offices mainly generate revenue for the Ministry from the following:
- Temporary Movement Permits [TMPs],
- Certificates of Identity [CI],
- Visa Stickers.

The Visa stickers, TMPs, CIs, and General receipts are received from the Ministry’s headquarters where they are independently recorded but we noted that the issue of these for use did not follow a chronological order making it difficult to account for them by the receiver. The balances of the visa stickers and TMPs were also not reported at the headquarter Accounts department for inclusion in the balances of stock/inventory at year end.

In addition the boarder immigration offices were not maintaining revenue collectors’ cash books.

In absence of proper records, it is difficult to confirm that all the revenue collected was properly accounted for.
I have advised the Accounting Officer to ensure that proper records are maintained. Stickers and General receipts should be issued in chronological order.

19.0 INFORMATION AND COMMUNICATION TECHNOLOGY

19.1 Non remittance of Social Security Contributions
A total of Shs.161,685,600 was paid to the employees of the National Information & Technology Authority – Uganda (NITA-U). However, it was established that social security contributions to the tune of Shs.24,252,840 were not remitted to NSSF contrary to the law. Delay in remittance of NSSF contribution may attract unnecessary penalties.

I have advised the Accounting Officer to make arrangements to remit this amount to National Security Fund (NSSF).

19.2 Expenditure on Utilities
19.2.1 Allocation of Costs
Review of documents relating to payment of utility bills revealed that due to lack of separate meters, payment of utilities was not based on consumption. The basis used for computation of utilities payable by the Ministry was not clear. For example, demand notice referenced ADM 84/206/01 amounting to Shs.78,932,721 in respect of electricity consumption did not indicate the basis of computation of the bills.

The Accounting Officer explained that his efforts to have separate meters for both electricity and water were not receiving serious attention from the Landlord.

I have advised the Accounting Officer to continue demanding for the separation of metres to avoid possibility of paying for utility services not consumed by the ministry.
19.2.2 **Outstanding Utility Bills**

A review of records revealed that the Ministry had outstanding bills totalling to Shs.77,100,203 in respect of power consumed at the Parliament and Entebbe transmission Sites. However, there were no utility registers maintained by the Ministry to track payments made against actual consumption and utility bills issued by the service provider. Although the Accounting Officer in his response stated that the registers had been opened, evidence in support of his assertion was not produced.

I have advised him to have utility ledges maintained and regularly reconciled with the service provider.

19.3 **Expenditure on African Union Summit**

The Ministry of Information, Communication and Technology received Shs.258,780,000 to finance activities related to the African Union Summit. However, review of related documents and records revealed the following matters:

19.3.1 **Amounts not credited to AU summit account**

Records indicated that out of Shs.258,780,000 released to the Ministry, Shs.197,967,430 was spent on AU Summit activities leaving a balance of Shs.60,812,570. However, at the time of audit only Shs.32,438,273 was available on the bank account and had not been returned to the UCF as required by Regulations. The balance of Shs.28,374,297 represented an amount released to the Ministry that was not credited to the AU Summit Bank Account. The Accounting Officer explained that this amount had been retained on the expenditure account because there were no more activities to be financed. He indicated that the amount was part of the balances that were returned to the Consolidated Fund. However, evidence in support of his assertion was not provided.

I have advised the Accounting Officer to transfer the unspent balance held on the AU Summit account to the Uganda Consolidated Fund.
19.3.2 **Payment of Allowances**

Shs.51,447,759 was paid out in allowances to all the Ministry staff for having worked during the Summit. However, no evidence was provided to show that all the Ministry staff participated in the AU Summit activities. There is a possibility that some staff were paid for no work done. In his reply the Accounting Officer explained that not all the ministry staff participated in the summit activities.

I have advised the Accounting Officer to investigate the matter further with a view of recovery of funds that could have been paid for no work done.

19.4 **Rental of Office Accommodation By MOICT**

The Uganda Land Commission on behalf of the MOICT (NITA-U) entered into a two year tenancy agreement with a company for rental services of office premises comprised in Block 118 Plot 7A, Volume 383, Folio 15 on Lugogo By-Pass, Kampala. The premises are registered in the names of an individual person with a mortgage in the names of a commercial bank. The Accounting Officer in his letter dated 17th February, 2011 to the Auditor General advised that the said tenancy was to run, from 1st August, 2010. Our audit work revealed the following anomalies.

**General Observations:**

- The duly executed tenancy agreement does not show the date of contract signing. This conveniently leaves the agreement open to manipulation and abuse capable of causing financial loss to Government. The question that therefore arises is that since the Valuer’s Report was made on the 17th of June, 2010 why didn’t the Accounting officer see to it that the specifications mentioned in the Report are embedded in the tenancy agreement alleged to have been signed on the 28th of June, 2010.

- The tenancy agreement shows that Stamp Duty was paid on the 28th of June, 2010, the date perceived as the date of signing the tenancy agreement as
expressed by the Accounting Officer in his letter dated 17th February, 2011 to the Auditor General.

- The Valuation Report of the Government Valuer forms part of the contract. The said property was valued by the Government Valuer at Ug.Shs.51,600,000 after completion. However, the MOICT contracted rent at a monthly price of Ug. Shs.62,545,437 hence their justification of annual payment of Ug.shs.750,480,000. The tenancy agreement remained silent on the net rental area and instead referred to the entire registered plot of the land. This is a significant and major omission as it forms the basis upon which the tenancy would be determined. Its absence raises doubt as to the validity of the contract.

**Waiver:**

- On the 3rd of May, 2010 the entity requested PPDA for guidelines on procurement of premises for Office rent. PPDA gave the entity the requirements but with a key condition; i. Proof of clean title.

- On the 18th of June, 2010 the MOICT requested for clearance from PPDA to use direct procurement for the acquisition of office rental space.

- On the 22nd of June, 2010 PPDA granted the application for direct procurement basing on the information of the Government Valuer, that the title is registered in the names of that said individual (registered proprietor). However the waiver was granted on three conditions:-

i. The Entity should negotiate on the lower price for the purchase.

ii. Follow the Chief Government Valuer’s advice on the matter.

iii. A Power of Attorney got from the registered proprietor authorizing the letting company to rent, deal and manage the property.
• The said Power of Attorney is not on file.
• The title has a mortgage, as evidenced in a letter dated 23rd June, 2010.
• No proof of agreement with the Government Valuer on the market value.
• The evidence of the mortgage was ascertained a day after the waiver was granted.

**Procurement Process:**

• PP Form 46 Examination and Assessment of Eligibility; Administrative Compliance. The above form was ticked as compliant by the MOICT to indicate that the renting company had indeed received a power of Attorney from the property owner. These documents appear to have been removed from the file together with those which would have established the true owner of the registered plot in question.

• The Mortgage is in the names of the commercial bank as shown in the letter from the Ag. Commissioner for Land Registration. The Mortgagor, i.e. the commercial bank did not give approval to registered proprietor to enter into Tenancy Agreements.

• The tenancy agreement is between the Uganda Land Commission and the company alleged to be the property manager of the registered proprietor. The latter, ought to have given Power of Attorney to the property manager before any contract signing. It is not clear whether this was done as the documents are missing from the file.

**Accounting for the Advance Rental:**

The Ministry paid in advance Shs.750,480,000 to the landlord in respect of rental of the office building for a period of 12 months running from August 2010 to July 2011. However, the advance rental was not recognized as a receivable in the financial statements for the year ended 30th June 2010, hence overstating the expenditure reflected in the statement of financial performance and understating the assets balance.
**Conclusion:**
The above observations show great concern in the irregular manner in which government finances were being managed by the MOICT. The inaction of the Accounting Officer in failing to have the tenancy agreement revised before any payments are made cannot be justified, given the fact that he was in possession of all the evidence required well before the signing of the contract. The Ministry of Justice and Constitutional Affairs also lapsed in their scrutiny of the contract before granting its approval.

Correspondences reviewed indicate pressure from NITA being exerted on the Accounting Officer to move this process at great speed. We noted for instance correspondence dated 21 May 2010 from NITA to MOICT indicating that they had already shopped around and had identified three properties which suited their requirements. Attached to this letter was “specifications” for the office premises so that the procurement process could be expedited. One of those three properties which suited their requirements comprised of Block 118 Plot 7A, Volume 383, Folio 15 on Lugogo By-Pass, Kampala which happened to be the eventual successful rented property. We were amazed to note the almost exact similarity between that document of “specifications” (which NITA had passed onto MOICT) and a document which forms part of an insurance contract between the company (who signed the tenancy agreement) and their insurers. This was too much of a coincidence. Interestingly the specifications included parking requirements for 40 cars whilst NITA has only got a current working force of approximately 19 people and projected to have only 5 directors and 21 managers in the future.

The PPDA Act gives guidance that direct procurement is a sole source procurement method for procurement where exceptional circumstances prevent the use of competition. MOICT failed to convince us of the exceptional circumstance that existed which warranted their request for sole sourcing. Our review of the waiver granted by PPDA permitting MOICT to sole source as set out in their letter of 22 June 2010 only alluded to infrastructural challenges being
met by MOICT in acquiring available office space. We remain unconvinced that this was exceptional to amount to a direct procurement being granted. Besides, the building was occupied in January 2011. The rent paid by MOICT for the period since August 2010 to January 2011 is nugatory and a loss to government of Shs.312 million in the event that the contract is not amended as indeed its validity is questionable in the absence of clarity of what constituted the rented space/area/building.

20.0 LOCAL GOVERNMENT

20.1 Diversion of Project Funds
It was noted that Shs.100,200,000 was diverted without authority from the Nakawa – Naguru Redevelopment Programme to Mbale Municipal Council to facilitate re-allocation of vendors of Central Market in Mbale. In addition, the funds were not acknowledged by the recipients. Diversion of project funds disrupts the smooth implementation of planned project activities and impacts negatively on the attainment of the projects’ expected outputs.

Accordingly, I have advised the Accounting Officer to desist from diverting project funds to finance non project activities, where necessary prior authority should be sought.

20.2 Irregular Refund in Respect of Medical Treatment
On 20th June 2008, the Office of the Prime Minister in a letter to the Ministry of Health cleared the spouse of the district Chairperson of a local government to travel to Nairobi, Kenya for medical treatment at the Aga Khan Hospital as approved by the Medical Board. The letter further indicated that the Ministry of Local Government would meet the costs. However, on 27th June 2008, the Accounting Officer, Ministry of Local Government communicated to the Chief Administrative Officer (CAO), the Ministry’s inability to meet the costs due to lack of funds and asked the CAO to meet the costs. Subsequently the local government paid Shs.11,629,000 to Chairperson.
Aware that the Ministry had been committed to clear the bill, the local government made a claim for reimbursement. However, scrutiny of the Ministry’s expenditure records for the financial year under review revealed that cash amounting to Shs.5,500,000 was irregularly paid and signed for by the district Chairperson. The refund to the Chairperson amounts to a double payment since the funds had earlier been paid by the local government. It was also not clear why the payment was made to the Chairperson when the claim had been made by the local government.

The Accounting Officer explained that the Ministry only made a contribution to the Chairperson towards the cost and had never been informed that the Chairperson had already been paid.

I advised Management that since the medical expenses were met by the district, the money paid by the Ministry to the Chairperson is recoverable.

20.3 Double payment of membership fees to the Common Wealth Local Governments Forum (CLGF)

Examination of the Ministry EFT Cash account transactions for the period under review revealed that Shs.17,552,600 was paid to the Commonwealth Local Governments Forum (CLGF) in respect of the ministry's membership fee for period 2009/2010. However, it was noted that although the Ministry was supposed to pay Pound Sterling 2,795, an equivalent of Pounds 5,590 was instead paid. The CLGF did not acknowledge receipt of the money.

Double payments imply that the controls within the payment processing system were not working effectively.

In his response the Accounting Officer explained that he had written to CLGF requesting them to acknowledge receipt of the two payments and transfer the second payment to cover Ministry’s membership fee for 2010/2011.
I advised management to strengthen controls over the payment system to prevent and detect such errors promptly.

20.4 **Withholding Tax (WHT)**

During the year under review a total of Shs.51,665,245 was withheld from suppliers in respect of WHT and remitted to URA. Section 260 of the Treasury Accounting Instructions (TAI) 2003 requires the Accounting Officer to issue individual WHT certificates to suppliers of goods and services for the WHT deducted and remitted to URA.

However, schedules of remittances to URA by the Ministry and tax certificates issued by URA were not made available for verification. The URA receipts availed were printed in the names of the Ministry but could not easily be traced to suppliers.

Without schedules and withholding tax certificates it becomes difficult for the suppliers whose taxes had been deducted at source to compute their tax obligation when filing their returns to the tax authority.

The Accounting Officer indicated that he had written to Uganda Revenue Authority to provide the tax certificates.

20.5 **Community Agricultural Infrastructure Improvement Programme 1 (CAIIP-1) (ADB Loan No.2100150013795 & IFAD Loan No.724-UG)**

20.5.1 **Budgetary Performance**

During the year under review, the approved budget for the programme amounted to Shs.59,796,149,561 as detailed in the table bellow:-
<table>
<thead>
<tr>
<th>Funding source</th>
<th>Budgeted Amount (shs)</th>
<th>Actual Amount received (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB loan</td>
<td>35,700,000,000</td>
<td>38,772,967,000</td>
<td>-3,072,967,000</td>
</tr>
<tr>
<td>IFAD loan</td>
<td>23,800,000,000</td>
<td>4,911,249,000</td>
<td>18,888,751,000</td>
</tr>
<tr>
<td>GoU</td>
<td>296,149,561</td>
<td>288,095,000</td>
<td>8,054,561</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59,796,149,561</strong></td>
<td><strong>43,972,311,000</strong></td>
<td><strong>15,823,838,561</strong></td>
</tr>
</tbody>
</table>

However, by the close of the financial year, only shs. 43,972,311,000 had been received (representing about 73% of the budget) leading to a shortfall of shs.15,823,838,561.

It was further ascertained that only Shs.22,231,809,000 was spent, representing only 50% of the total receipts for the period.

This implies that the programme had a low funds absorption capacity.

Management should accelerate the process of programme implementation in order to access all the approved funds. This will allow the planned activities to be accomplished within the project duration.

20.5.2 **Delays In Implementation Of Planned Activities**

It was noted that there were delays in implementation of planned programme activities. For example, the following activities which constituted about 90% of the budget for the period were not completed during the year:-

- Civil works on the district feeder roads,
- Civil works on Batch B community access roads and
- Civil works on 77 rural markets.

Failure to implement all planned activities impacts on the attainment of all programme objectives within the planned programme period, necessitating costly extensions of the programme.

Management should ensure that all planned activities are always implemented according to plan.
20.5.3 **Field Inspections**

During the audit exercise, field inspections were also undertaken with a view of establishing among others, regularity of disbursements of operational funds to the districts and accountability thereof; Progress of civil works on district feeder roads and community access roads; and Contract awards for rehabilitation of community access roads by the respective District Local Governments. The following matters were observed:-

20.5.4 **General Issues**

(a) **Maintenance Of The Works**

During the field inspections, it was observed that quite substantial investments had been made in the opening of the community access roads in the programme districts under the batch A roads with more investments expected to be done in the batch B roads. It is however not clear whether there are formal arrangements for the maintenance of the roads after hand over and expiry of the defects liability period. Some roads that were handed over had already started deteriorating and no routine maintenance was being done as exemplified below:-

| Washed away head walls on the Gimayote-Marama road | The narrowed section of the Marama-Bulugeni road |

Failure to have a proper maintenance programme for the rehabilitated roads reduces their lifespan.

There is need to urgently devise a proper maintenance programme for the rehabilitated roads.
(b) **Variations Between Road Designs And The Actual Measurements**
A review of the supervision reports revealed variations between the quantities as per the design and the actual quantities of the roads constructed as detailed in the table below:-

<table>
<thead>
<tr>
<th>Road link</th>
<th>Original estimated length (KM)</th>
<th>Actual length (KM)</th>
<th>Variance (KM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nakigo-Kiboyo-Buluza</td>
<td>4.9</td>
<td>4.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Nawanzu-Bubago-Buwaiswa</td>
<td>4.6</td>
<td>4.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Nakigo junction-Lubabwe-Busowobi</td>
<td>6.6</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Busowobi-Nyenga</td>
<td>1.5</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Busowobi-Nakigo</td>
<td>3.8</td>
<td>2.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Kibira-Budwege</td>
<td>2.5</td>
<td>3.1</td>
<td>(0.6)</td>
</tr>
</tbody>
</table>

Such variations reflect weaknesses at the preliminary survey and design stage of the roads and can lead to inappropriate estimates and budgets being compiled.

Management should ensure more strict procedures are undertaken during the survey and design of the roads to enable compilation of appropriate estimates and budgets.

20.5.5 **Specific District Issues**

**Mbale District**
a. **Delays In The Completion Of The Civil Works**
During inspections it was noted that some roads under the Batch A of the community access roads had not been completed despite the fact that the contract periods had expired. The delays could be attributed to anomalies at the design level where there could have been inadequate assessment of the various sections of the roads and low capacity by the contractors to undertake the roads.

For instance, the Kilayi-Imam Hussein Road, which is supposed to act as a link to the neighboring Sironko district passes through a forest and one section is on
a very steep road which has brought the work at a stand still. On the Nanyuza-Makosi road a 0.7 kilometer section can not be completed due to a stand off between the communities of the two sub-counties of Bufumbo and Busana. It’s not clear whether these issues were considered at the survey and design stage.

| Works on this section (approximately 1 km) of the Kalayi-Imam Hussein road have stalled due to the complications of crossing this natural forest and the stiff slope. |
| Works ongoing on the Kalayi bridge along Kalayi-Imam Hussein |

Delays in the completion of the works impacts on the achievement of the intended objectives of the civil works.

b. **Quality of Workmanship**

It was noted that there was evidence of poor quality of workmanship on some roads inspected. For example, there were big cracks on the bridge wall that was
constructed along Kilayi-Imam Hussein road and also on the headwalls on Nanyuza-Makosi road as shown in photos below:

| Major crack on the bridge wall along Kilayi-Imam Hussein road link. | Poor workmanship on the headwall on Nanyuza-Makosi road |

Such defects in the civil works may affect their lifespan and hence their usage by the communities.

**Rakai District**

a. **Delayed Completion Of Construction Of A Rural Market At Lwanda Sub-County**

The construction of Lwanda market was awarded to M/s T.K. Engineers Ltd for a contract period of 6 months ending 4th November 2010.

During our inspections in November (four months after the site was handed over to the contractor), the works were still at the stage of excavation of the foundation.

Such delays could be related to insufficient capacity by the contractor to undertake the works according to plans.

Delays in the execution of the works do not only impact on the achievement of the programme objectives during the period but could also lead to increase in the contract administrative costs.
Management should compel the contractor to expedite the works in question. In addition, management should provide for more rigorous contractor selection procedures to ensure that competent contractors are selected.

20.6 **Community Agricultural Infrastructure Improvement Programme – Project II (CAIIP-P II) (ADB Loan No.2100150017394)**

20.6.1 **Budgetary Performance**
During the year under review, the approved budget for the project amounted to Ushs.4,998,542,450 attributed to AfDB loan. However, by the close of the financial year, only shs.2,199,755,863 had been received (representing only 44% of the budget) leading to a shortfall of Ushs.2,798,786,587. It was further noted that of the amount received, only Ushs.867,396,261 was utilised by the end of the year, representing only 39.4% of the total receipts for the period yet some activities remained outstanding. The notable outstanding activities included; the procurement of consultants for the design of the community access roads, procurement of project vehicles and office equipment.

This implies that the programme had a low funds absorption capacity.

Management should accelerate the process of programme implementation to enable it access all the approved funds and carry out the planned activities within the project duration.

20.7 **District Livelihoods Support Programme (DLSP) (IFAD Loan No..707-UG & Grant No.895-UG)**

20.7.1 **Ineligible Expenditure**
The Programme financing agreement stipulates that IFAD funds shall not be utilised for payment of taxes. On the contrary, an amount of Ushs.887,034 was paid from the project funds to cater for Value added tax incurred on the purchase of goods and services as shown below:-
The payment of the above tax is therefore ineligible.

Management should ensure that the project account is refunded with the amount in question.

20.8 **Budget Performance**

During the year under review, the approved budget for the project amounted to Ushs.16,590,359,371 with Ushs.13,623,359,371 meant to be received from IFAD and shs.2,967,000,000 from the Government of Uganda. However, by the close of the financial year, only shs.4,195,458,710 (representing only 25.2% of the budget) had been received, leading to a shortfall of shs.12,132,400,661 as shown in the table below:

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Budget (shs)</th>
<th>Actual receipts (Ushs)</th>
<th>Shortfall (Ushs)</th>
<th>Shortfall %age</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOU</td>
<td>2,967,000,000</td>
<td>382,328,163</td>
<td>2,584,671,837</td>
<td>87.1%</td>
</tr>
<tr>
<td>IFAD loan</td>
<td>13,360,859,371</td>
<td>3,813,130,547</td>
<td>9,547,728,824</td>
<td>71.46%</td>
</tr>
<tr>
<td>IFAD GRANT</td>
<td>262,500,000</td>
<td>0</td>
<td>262,500,000</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>16,590,359,371</strong></td>
<td><strong>4,195,458,710</strong></td>
<td><strong>12,132,400,661</strong></td>
<td></td>
</tr>
</tbody>
</table>

A further analysis of the project financing indicates that the cumulative loan disbursements to the project as at the end of the third year of implementation (30th June 2010) stands at US$.7,280,012.22, representing 26.6% of the total
financing of US$27,440,000. This reflects slow progress in the implementation of the project activities given the fact that about half of the project period has elapsed.

The short falls in the budget performance negatively affected the level of implementation of the planned activities for the period. The overall objectives for the project may thus not be attained within the anticipated period of time.

Failure to access the entire funding requirements for the period could be a result of failure of the Project to justify the withdrawal applications due to delays in implementation of Project activities.

There is need by the project to review the implementation approach especially at the district level to ensure timely implementation of the planned activities.

20.9 **Pattern of Release of Funds to the Districts**

A review of the release of funds from the National Liaison Office indicated an irregular pattern in the flow of funds. A total of Ushs 2,915,947,436 was released to the 13 districts for the implementation of planned activities for the period under review as summarized below:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Amount (shs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>280,158,878</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>1,669,977,667</td>
<td>57%</td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>4</td>
<td>965,810,891</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,915,947,436</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

It was noted that no funds were released in the third quarter and 33% of the total amount released was received in the fourth quarter. Such pattern of releases do not allow for the smooth and effective implementation of the planned activities and leads to perpetual carrying over of the activities to the
next period. It was further noted that amounts totaling to U shs. 519,872,917 (18% of the total disbursement to the districts) remained unspent on the various district accounts. This is attributed to late releases of funds to the districts which led to failure to utilize all the funds received.

Management should ensure timely and regular releases of funds to districts to enable them implement all the planned activities in a timely manner.

20.10 **Use of the Accounting and Monitoring & Evaluation Software**

The Project procured TOMPRO and TECpro Accounting and M&E software during the financial year 2008/09 at a total cost of US$.56,250. The software was intended to aid in the financial accounting, budgeting, Monitoring and Evaluation for DLSP activities including all the 13 participating districts. During field inspections it was noted that 2 out of the 13 districts were not using the accounting software while in some of the districts data, entry was not up to date.

It was further noted that the TECpro software purchased specifically for the monitoring and evaluation function was not fully being utilised by the project.

This implies that the project has not fully utilised the software in question.

Management should ensure full utilization of the software.

20.11 **Loss of Motorcycles**

It was noted that during the year under review, four motorcycles were stolen from the districts of Bugiri and Yumbe.

However, by the time of audit in November 2010, no compensation had been received from the insurance provider (i.e. M/S NIC) who had comprehensively insured all the project motorcycles and vehicles.

The Programme stands a risk of losing the funds if follow-up is not undertaken.
Management should follow up the matter with the insurance provider.

20.12 **Payments to URA**

It was noted that the following payments amounting to Ushs.45,992,915 made to Uganda Revenue Authority in lieu of PAYE deduction from staff salaries were not supported by official acknowledgement receipts from the tax body:

<table>
<thead>
<tr>
<th>Doc No.</th>
<th>Date</th>
<th>Payee</th>
<th>Amount (shs)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>560</td>
<td>20-04-2010</td>
<td>URA</td>
<td>8,504,845</td>
<td>PAYE FOR APRIL</td>
</tr>
<tr>
<td>786</td>
<td>24-03-2010</td>
<td>URA</td>
<td>6,078,090</td>
<td>PAYE for March 2010</td>
</tr>
<tr>
<td>783</td>
<td>24-03-2010</td>
<td>URA</td>
<td>9,287,342</td>
<td>PAYE for Feb. 2010</td>
</tr>
<tr>
<td>780</td>
<td>17-02-2010</td>
<td>URA</td>
<td>8,215,818</td>
<td>PAYE for the month of Jan 2010</td>
</tr>
<tr>
<td>763</td>
<td>14-12-2009</td>
<td>URA</td>
<td>13,906,820</td>
<td>PAYE for December 2009</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>45,992,915</strong></td>
<td></td>
</tr>
</tbody>
</table>

In absence of the receipts, I could not confirm that the amounts were received by the tax body.

Management should obtain and avail the receipts for audit verification.

20.13 **Field Inspections**

The following matters were observed during the field inspections that were carried out in the districts of Masindi, Luwero, Nakaseke, Oyam, Apac, Yumbe, Kamwenge, Kyenjojo, Bundibugyo, Mayuge, Bugiri, and Busia:

20.13.1 **General Observations**

- **Delays in Completion Of Civil Works**

During our field inspections, it was observed that there were delays in the rehabilitation of the roads under the programme in all the districts visited. Whereas the contracts commenced as early as May 2010, by the time of our inspections in September 2010 most contractors had only managed to do the works involving the bush clearing/road opening. Such delays could be a
result of low capacity on part of the contractors in undertaking the road works as evidenced by the works undertaken thus far and some abandoned equipment at the sites as shown below:-

| Impassable Section of Minakulu - Opuk road under construction and Wheel loader abandoned at the site for some time. |
| Uninstalled culverts and excavated murrum remained on the Yumbe-Lobe road but with no visible presence of the contractor. |

Failure to complete the road works on schedule could lead to unnecessary increase in the contracts costs which may ultimately lead to abandonment of the works by the contractors.

Management should urge the contractors in question to expedite the works contracted to them.

Management explained that warnings had been issued to contractors who are lagging behind and specifically given them a dead line to complete the ongoing works.
20.13.2 **Procurements**
A review of the procurements at the districts revealed that there were still gaps in the procurement function. It was noted that procurement records are not properly kept by the procurement units and the staff are not conversant with the evaluation procedures. For instance in Bundibugyo and Busia the evaluation committees had awarded the tenders to wrong bidders as a result of using a wrong evaluation criteria although the decisions were later reversed by the project coordination unit.

Management at the district levels together with the PCU should institute measures to improve the capacity of the district procurement units.

Management explained that the PCU is planning to conduct training for the procurement unit staff of the districts.

20.13.3 **Fixed Assets Management**
Review of assets management function at the Districts still indicates challenges in the control and use of the assets. It was noted that some districts do not maintain up-to-date asset registers. Some project assets were being used permanently by other district officials while in some instances their safety was found lacking.

For instance in Apac and Kamwenge Districts, the vehicles meant for Land Department were being used by the office of the Chief Administrative Officer while in Yumbe District the two project vehicles were being used by the Office of the District Chairman and Chief Administrative Officer, while four motorcycles were given out to Councilors. In Bundibugyo the vehicle meant for land management has been transferred to Ntoroko district. In Yumbe, two motorcycles Registration Nos. UG 2672R and UG 2669R got lost. Such incidences reflect a lack of enforcement of guidelines for the asset management function at the district level and could affect the smooth running of the project activities.
Management should enforce adherence to guidelines relating to the use and management of all project assets.

20.13.4 **Unsupported Expenditure**

An amount of Ushs.87,392,752 advanced to various staff to implement project activities at the districts shown below, had no supporting documentation in form of receipts and field reports:

<table>
<thead>
<tr>
<th>District</th>
<th>Amount (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yumbe</td>
<td>3,425,000</td>
</tr>
<tr>
<td>Oyam</td>
<td>19,322,300</td>
</tr>
<tr>
<td>Apac</td>
<td>27,607,000</td>
</tr>
<tr>
<td>Masindi</td>
<td>12,370,000</td>
</tr>
<tr>
<td>Luwero</td>
<td>875,600</td>
</tr>
<tr>
<td>Bugiri</td>
<td>3,958,000</td>
</tr>
<tr>
<td>Bundibugyo</td>
<td>7,400,000</td>
</tr>
<tr>
<td>Kamwenge</td>
<td>4,620,000</td>
</tr>
<tr>
<td>Mayuge</td>
<td>4,350,852</td>
</tr>
<tr>
<td>Nakaseke</td>
<td>3,464,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>87,392,752</strong></td>
</tr>
</tbody>
</table>

The anomaly is a result of laxity by the districts to closely follow up the amounts advanced to staff. Delayed accountability for funds slows the pace of submission of withdrawal applications for additional funding by the Programme Coordination Unit.

In absence of accountabilities, we could not confirm whether the amounts were utilized on intended purposes.

Management should obtain the accountability in question and submit for audit examination.
20.14 **Specific observations on Districts**

(a) **Busia District**

- **Unutilized Finger Millet - Ushs.10,800,000**

A physical inspection of the Busia District Stores revealed that a total of 36 bags of finger millet, supplied by M/S Gummo Enterprises and valued at Ushs.10,800,000 had not been distributed to the intended beneficiaries. By the time of inspection in October, 2010 the millet had been lying in the stores for eight months after delivery. The Store keeper explained that by the time of delivery, the planting season had elapsed as a result of the delayed procurement. The seeds therefore had to be kept for the next season. The intended purpose could therefore not be achieved in a timely manner. His reflects a weakness with the district planning function which could lead to waste of the project funds.

Management is advised to ensure that in future, the procurement process is initiated early to avoid such delays. Further, the process of distribution of these seeds to the intended beneficiaries should be undertaken without further delay.

(b) **Bugiri District**

- **Establishment of the Iwemba Fish Pond**

The contract for the construction of a fish pond and supply of brood fish at Iwemba Sub County was awarded to M/S Mulama General Enterprises at a total cost of Ushs.13 Million. However, a site inspection carried out on 22nd September, 2010 indicated that whereas the pond was complete and functional, no measures had been put in place to safeguard this project with a fence. This exposes the fish pond to various risks most especially as it is located in a sparsely populated place.

There is need to provide for protection of the pond.
(c) **Bundibugyo District**

- **Grants To Beneficiary Groups**

  During the year under review, the district funded several groups to set up poultry projects, establishment of fish ponds and the acquisition of rice hurlers. The following matters were observed:-

  i. **Selection of groups**

  The guidelines for the selection of the groups to benefit from the matching grants were issued in 2007. The guidelines provide for a competitive process for the proposing groups to go through in order to benefit from the grants. However a review of the groups that benefited shows no evidence of them having undergone any screening as per the guidelines.

  In addition, there was no indication of group element in the management of the projects which could partly explain why some projects failed to take off or are not properly managed.

  ii. **Construction of fish ponds**

  Two groups, namely Bughendera farmers and Harugale farmers, were identified to set up fish ponds during the year under review. Accordingly, an amount of Ushs.8,000,000 was paid out to the groups for the establishment of the ponds. Site visits were undertaken on both groups and the following matters were observed:-

- **Bughendera farmers group**

  The site for the Bughendera farmers where an amount of Ushs.4,000,000 was paid to the group had failed to take off and the members abandoned the pond at the excavation level as shown in the photograph below:-
The fish pond for Bughendera farmers which failed to take off. Ushs.4,000,000 had been paid to the group. The fish frys meant for the pond were placed in a private pond.

Ultimately, the fingerlings meant for the group were now placed in a private fish pond. This implies that the group did not achieve any benefit from the funds given to them.

- **Harugale farmers group**
The fish pond was found to have been constructed and was operational. However, access to the pond was not restricted by way of a fence around the pond as shown below:-

There is need to provide for protection of the pond.
iii. **Purchase of rice hullers**

Three rice hurlers were purchased from M/S Farm-rite Machineries and equipments limited for the three groups that were to benefit from the grant. Site inspections were undertaken where it was noted that where as in the specifications the district had required hullers of 8 HP diesel engines, the supplier had delivered 7 HP diesel engines. Both machines still lie idle, three months after delivery, at the group locations raising doubt on the rationale for the purchase of the machines for the groups.

This indicates a lack of proper planning and needs assessment by the district implementation unit.

<table>
<thead>
<tr>
<th>Image</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.jpg" alt="Image" /></td>
<td>The rice huller purchased in June 2010 for the women’s group still housed unused.</td>
</tr>
<tr>
<td><img src="image2.jpg" alt="Image" /></td>
<td>The rice huller purchased in June 2010 for the Abene Abagwene group in a make-shift house.</td>
</tr>
<tr>
<td><img src="image3.jpg" alt="Image" /></td>
<td>Foundation for the proposed unit to house the rice huller. Just next to the dwelling house.</td>
</tr>
</tbody>
</table>

The District should review the selection process and carry out proper needs assessment for the intending groups so as to avoid such procurements that could lead to loss of programme funds.

iv. **Lack of a Contracts Committee**

The PPDA regulations require that all government institutions should have a contracts committee to handle their procurements. However, it was noted that the district operated throughout the financial year without a contracts committee. By the time of audit in September 2010, the district had not
appointed a contracts committee. Procurements were thus being handled through the Fort Portal Municipality contracts committee.

Absence of the committee could partly explain the delays in the procurements undertaken during the period.

20.15 **District Development Programme III PILOT (DDP – III)**

(a) **Delay in implementation of planned activities**

We noted that some activities were not implemented in the period they were planned. All activities under output 3 (Business & Market development services to stimulate demand provided) planned to take place in the 2nd and 3rd quarters of 2009 as well as 2nd quarter of 2010 were not yet implemented. We were told that this was as a result of delay in implementation of other activities that were supposed to take place before this output.

The whole process of implementation is slow. This hinders the smooth running of the whole project. There is a possibility of the project period lapsing without implementation of major project activities. Development partners may withdraw funding at the end of the project life.

There is need for management/project support team to speed up in the process of implementation especially on activities where funds are available.

(b) **Government/LGSIP contribution towards the Annual Work Plan (AWP)**

According to the annual work plan, Government/LGSIP was supposed to contribute US $1,890,000 out of the total project budget of US $3,975,000 (approximately 50% of the total budget) for the period up to 2010. However, out of its total contribution, only UGX 204,000,000 (approximately $102,000) was released and this was towards the end of the 2010 financial year. For this reason most activities funded by Local Government Sector Investment Plan (LGSIP) for the period up to 2010 as per the AWP were not implemented.
Inadequate release of funds is likely to affect the overall project implementation as well as its objectives. Successful implementation of the project is at stake.

Management of the Implementing Partner and LGSIP should ensure funds are released in time to argument smooth project implementation.

(c) **Lack of MOUs between MoLG and the District Local Governments**

During the period, Ministry of Local Government disbursed funds to various Districts of Arua, Kitgum, Kayunga, Busia and Isingiro where most of the project activities are implemented. We noted however that there were no documented/signed MOUs between the Ministry and these Districts concerning the management of these funds.

With no stipulated guidelines in place, monitoring project activities at district level becomes difficult since no benchmarks were agreed between the two parties at the on set of the project activities.

Management should ensure that there is always an understanding between the implementing partner and various implementing agents, properly documented and signed to, clearly highlighting all the guidelines concerning project management and implementation.

**21.0 TOURISM, TRADE & INDUSTRY**

**21.1 Contract for Consultancy Services**

On 28th July, 2009, the Ministry signed a contract worth Shs.1,065,540,000 with a local consultancy firm for the provision of consultancy services for the development of specifications; designs and supervision of construction of the proposed Office building of the Ministry. The original objective was to have a new 8-level floor modern office building extendable to 10-12 levels to house the
Ministry headquarters. The contract provides that the services were to be performed within 150 weeks.

By end of the year under review (June 2010), a total of Shs.849,216,000 representing 79.6% of the contract sum had been paid to the consultants. It was established that the Ministry later shifted from the original proposal of constructing a building of 10-12 floors to constructing a more modern 60 floor commercial building under the Public Private Partnership (Build Operate and Transfer) arrangement. However, both the cost and economic implications of this change were not indicated.

It was also observed that although the Ministry had issued instructions to the consultants for the architectural and engineering designs of the 60 (sixty) level office block and fast tracking of the designs and concept prospectives to be used by government for discussion with prospective investors, the original consultancy contract had not been revised to address the increased scope. I was not able to establish how the deliverables under the original consultancy contract will impact on the new contract. It is also not clear whether the consultancy firm has the capacity to handle the expanded scope of the works.

In view of the magnitude of the project and the widespread spectrum of stakeholders who will be affected by the project which will also involve demolition of the existing National Museum, management is advised to carry out wide consultations with Cabinet and all key stakeholders for the necessary support towards the venture.

21.2 Staffing Gaps

The key function of the Ministry is to contribute to increasing production, value addition, expanding markets both locally and internationally and to facilitate or develop the tourism sector. However, it was observed that out of an approved establishment of 277 posts for the Ministry, only 194 posts had been filled during the period under review, which represents 70% of the establishment. Such
staffing gaps may impact negatively on service delivery. Efforts should be made to improve the staffing position of the Ministry.

In response the Accounting Officer explained that Ministry of Public Service was carrying out a comprehensive review of Ministries’ staffing requirements to address the matter.

21.3 **Jua Kali Parks**

The Ministry signed a contract with a company for the construction of National Artisan (Jua Kali) Premises at Makindye at a contract sum of Shs.13,024,981,048. According to the contract the Ministry was to make a down payment of 20% of the contract sum amounting to Shs.2.605 billion to the contractor but only managed to pay Shs.200,000,000 to commence works. Despite the advance payment, a physical inspection at the site revealed that the site had been abandoned by the contractor after undertaking works valued at less than Shs.20,000,000. It was also established that the Land acquisition had so far costed the Ministry Shs.500,000,000 with a balance of Shs.235,000,000 still outstanding.

Records further indicate that the Ministry had terminated the contract with the contractor. However, I was not able to ascertain as to whether the contract termination followed the recommended government procedures.

The Accounting Officer explained that following a shift in policy, the land in Makindye will be handed over to the artisans to construct the facilities themselves in accordance with the architectural plans developed by the Ministry. However, it is not clear how the Ministry intends to recover the funds advanced to the contractor.

I have advised the Accounting Officer to liaise with the Solicitor General for legal advice.
21.4 **Land in Luzira**

The Ministry was allocated land at Luzira and Shs.216,000,000 was accordingly paid three years ago. However, the land title for the land in question was not available to confirm ownership of the land. In absence of a land title I could not confirm that the land is owned by the Ministry.

The Accounting Officer explained that the land title was being processed by the Uganda Land Commission.

21.5 **The Museums and Monuments Department**

The Department of Museums and Monuments is based at the Uganda National Museum, Plot 5 Kira road and is responsible for the preservation and promotion of cultural heritage in the country.

The Historical Monuments Act 1967 Cap 46 of 2000 provides for preservation and protection of historical monuments and objects of archaeological, pale ontological, ethnographical and traditional interest. The 1995 Constitution of the Republic of Uganda under national objectives and directive principles of state policy XXV, obligate the state to preserve and protect Uganda’s heritage. The constitution further in article 189(1) schedule 6(10) mandates Central Government to manage national monuments, antiquities and archives as Parliament shall determine. A review of the activities of the Museum revealed that the Ministry is yet to come up with a long term strategy to enhance the performance of the department.

- The department is inadequately funded to the extent that it can hardly carry out its planned activities; for example it had not been able to carry out research services involving pale ontological, archaeological, historical, ethnographical and anthropological studies for academics and professionals, although the Museum is a research oriented organization.
- The Ministry is planning to demolish the Museum to pave way for the construction of a sixty storey building for the Ministry headquarters and East African Trade Centre. However, it is not clear how the Museum will benefit from this initiative.

- The Museum collects non-tax revenue for the ministry from tourists, schools, wedding receptions and meetings amongst other revenue sources. It also collects revenue from tenants in form of rent from those who use the Museum facilities to sell their handcrafts and billboard. During the year under review the Museum collected and banked non-tax revenue amounting to Shs.41,791,100. With a proper strategy the Museum has the potential to generate much more revenue than it is now collecting.

- It was also established that the Register/Data base for Artifacts and Specimens is still incomplete. There a need to have it up dated.

I advised the Ministry to come up with a proper strategy to enhance the performance of the museum, but this will require wide consultations with stakeholders for the necessary funding.

22.0 ENERGY & MINERAL DEVELOPMENT

22.1 Non Tax Revenue (NTR)
- Failure to Implement New Non-Tax Revenue Rates/Loss of Revenue
  Shs.349,451,171
Government approved new rates for Non Tax Revenue with effect from 1st February 2009. Contrary to the above directive, the Ministry continued to apply the old rates in assessment of Non Tax Revenue. From a sample of 23 Royalty assessments made during July 2009, February, March, and May 2010 it was established that Shs.498,194,630 was collected using the old rate instead of Shs.847,645,801 that would have been collected.
The failure to apply the appropriate rates authorized led to loss of Shs.349,451,171 in revenue to Government.

The Accounting officer explained that the new rates were not implemented due to technical challenges that were sighted and communicated to the Ministry of Finance Planning and Economic Development and that the Ministry was going to take up the matter with the relevant Ministry to prepare the necessary documents to harmonize and implement the new rates.

- **Reconciliation of Assessment Vs Collections**
  It was noted that the Directorate of Geological Surveys and Mines (DGSM) does not carryout reconciliation with the Ministry Accounts Department to ensure that the NTR collected is reconciled with what was assessed. From a review of DGSM records in respect of 148 Exploration licenses granted (assessments), a total of Shs.498,198,000 should have been collected. However actual collection was Shs.560,839,081 from the licenses. This leaves an unreconciled difference of Shs.62m.

  Similarly, Royalties are paid by mining companies on the basis of quantity and quality mined and sold. A total of Shs.1,135,682,258 which was received as mineral royalties (based on Bank payment advices) did not indicate the volume and quality of minerals that were paid for. I could not therefore ascertain whether all dues from royalties were correctly assessed and received.

- **Weaknesses in Royalties distributed to beneficiaries**
  The Mining Act, 2003 states that Royalty shall be shared by the Government, local government and land owners in specified proportions of 80%:17%:3%. It was however observed that the Act does not define to what level local government’s share is distributed. The ministry only deals with Districts. This has often caused conflict between districts, town and sub county councils over sharing of royalties as most districts do not have guidelines on what to transfer and where. Audit further noted that the 3% entitlement to land owners is rarely
claimed by the individual landowners. This is largely attributed to lack of sensitization of the general public about their benefits/rights.

I advised management to liaise with Ministry of Local Government to provide guidance on the beneficiaries of the 17%, and where found necessary to have the various laws harmonised. I also advised that adequate sensitisation to the public of their rights be made.

22.2 **Jinja Storage Tanks - Lack of Fuel Reserves**

The Jinja Storage Tanks (JST) were intended to hold national strategic fuel reserves while also offering short term storage facilities to oil companies. Recently Government opted for a public private partnership in order to revamp, up-grade, and restock the tanks and also allow for the integration of the JST with the Kenya/Uganda oil pipeline with an additional big storage facility at Nakilembe, West of Kampala. Under the Ministry's strategic plans, government further planned to build and stock four regional storage facilities in the Central, East, West, and North aimed at ensuring the country's fuel security.

Audit however noted that despite the above strategic plans, the country has not had fuel reserves for two years since July 2008. I mentioned the non-functioning of the Jinja storage tanks in my previous reports but this position did not change in the period under review. There is no evidence of implementation of the regional storage facilities as well. Adverse economic and social implications are often associated with incidents of fuel shortages.

Management in response stated that the process of procuring a private partner is nearly complete and the facility should re-open as soon as the procurement process is completed. With regard to the regional storage facilities management stated that, these are medium to long term plans under the five year (2010/2011 – 2014/2015) National Development Plan and will be embarked on once the needed resources have been availed.
22.3 **Staffing**

- **Unfilled vacancies**
In my previous reports, I mentioned the staffing gaps in the Ministry. During the year under review, 70 posts in the established structure of the Ministry remained unfilled. I informed management that staffing gaps may have a negative effect on the Ministry’s performance and its ability to fulfil its mandate.

- **Staff Deployment**
Audit further noted that in spite of the overall staffing gaps of 22% of the approved structure, some departments individually had staff deployment in excess of approved staff numbers for their respective departments (over-establishment). A total of 9 staff were deployed in positions which are not in the approved establishment structure. The imbalance in staff allocation may affect performance of individual departments.

The Accounting Officer in response stated that since the last restructuring in 1998, a lot of reforms and challenges have taken place in the energy and mineral sector, necessitating a review of the structures. The ministry is therefore undergoing a restructuring process. I urged him to liaise with Ministry of Public Service to expedite the process.

22.4 **Compliance with the Law on Petroleum Operations**
The Petroleum Supply (General) Regulations, 2009 empower the Commissioner to revoke a permit or license issued under the Regulations where a holder fails to comply with the terms and conditions of the permit or license.

The key terms and conditions of the permit include: environment protection plans and requirements; safety programs and contingency plans; minimum stock requirements; adulteration of petroleum products; and smuggling.

Inspection and Monitoring reports by a Technical/monitoring team under Petroleum Supplies Department revealed a lack of Petroleum Facility
Construction Permit/Petroleum Operating License for the 78 petroleum facilities inspected in Kampala, Wakiso and Luwero. We noted further that only 4 stations had environment impact Assessment certificates. These issues were not acted upon.

Failure to comply with the law may compound inefficiencies and irregularities such as fuel adulteration as well as pose environmental hazards.

22.5 **Wrong Classification of KUOP Development Expenditure**
Kenya-Uganda Oil Pipeline (KUOP) is a joint Government of Uganda and Government of Kenya Project funded by a Grant from African Development Bank.

During the period under review, GOU budgeted for KUOP activities a sum of Shs.55,386,000 under the recurrent expenditure of the Ministry of Energy and Mineral Development’s Petroleum Supplies Department (PSD). While this expenditure was incurred towards project activities in the period, there was no separate code set out for the project resulting in a mix up in the allocation/charging of costs to the relevant cost centers/Projects.

KUOP project activities are development expenditure in nature and as such should be budgeted for under the development budget instead of the recurrent budget.

Management acknowledged the observation and promised to separate codes for the project before the implementation phase.

22.6 **Escrow Accounts**
ESCROW accounts are accounts opened and have funds deposited thereon as a guarantee by Government of Uganda to fulfil specific functions before accessing donor funds or private partnership investments. In my report on the financial statements for the year ended 30/6/09, I recommended that the Ministry in liaison with Ministry of Finance, Planning and Economic Development and Bank of Uganda comes up with a policy on how to effectively and
economically manage the numerous ESCROWS Accounts under the Energy Sector. There was however no evidence of any follow-up on the recommendation in spite of the fact that the accounts hold huge sums of money of up to Shs.97 billion. These funds have remained idle & unutilized for up-to 3 years thereby holding up scarce resources.

The Accounting Officer stated in his reply that this is a result of conditionalities contained in the different funding agreements and that at times the resettlement of affected persons takes long. The Ministry is however exploring cheaper guaranteeing mechanism that would lead to freeing some of these resources. I advised him to liaise with Ministry of Finance, Planning and Economic Development with a view of exploring the use of other financial alternatives to meet the donor/PPP investors requirements.

22.7 **Inspection of Petroleum Department Operations**

(a) **Non Payment of Application Fees for Construction Permit**

An inspection of petrol stations was carried out with a view of checking the level of adherence to and compliance of petrol stations with the Petroleum Supply Regulations, (2009) and Petroleum Supply Act (2003). The areas visited included Mukono, Jinja, Mayuge, Iganga, Kampala, Wakiso, Mbarara, Masaka, Kabale, Lyantonde, and Bwizibwera. It was noted that contrary to the provisions of these Laws, construction of seven (7) stations were started, completed and operations commenced without paying application fees, obtaining construction permits or completion certificates. Because of failure to enforce the above provisions, government lost revenue in respect of application fees. Further more non supervision of substandard facilities may expose the public to various risks.

I advised management to strengthen monitoring/inspection and enforcement units to ensure that petrol station operators comply with the law and meet the standards required of setting up a petroleum facility under the new regulations.
(b) **Lack of Independent Valuation of Investments**

Audit inspections further revealed that 3 stations owned by one operator were under construction at several prime locations in Kampala. Details below;

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>PLOT NO.</th>
<th>PLOT SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namirembe Rd, Kampala-Ug</td>
<td>34,36,38</td>
<td>0.44 hectares</td>
</tr>
<tr>
<td>Enterprise close, K’la-ug.</td>
<td>2B</td>
<td>0.35 hectares</td>
</tr>
<tr>
<td>Kiira Road, Kampala</td>
<td>9A and 9B</td>
<td>0.23 hectares</td>
</tr>
</tbody>
</table>

According to the Petroleum regulations, a contractor is supposed to pay 0.1% of the value of total investment as application fees for a construction permit. The Construction Permit fees that was paid for the 3 facilities of Shs.1,353,000 by the investor as 0.1% of the investment value of USD 600,000 appears to be on the lower side given the nature and prime location of the investments.

Without a mechanism for an alternative independent valuation of the proposed investment, there is a risk of loss of revenue to government as a result of underestimation of the total value of the investment by the applicants.

I advised the Accounting Officer to explain the circumstances under which such valuation was assessed and recommended that the use of independent valuers should be immediately utilised in assessing the investment values submitted by the applicants to ensure collection of the proper amounts.

(c) **Environmental Audit and Impact Assessment**

Petroleum Supply (General) Regulations 2009 require that within a period of twelve months or as need may arise after commencement of operations; the holder of an operating license shall undertake an environmental audit of the project. In addition the same Regulations provide guidelines on the environmental impact assessment and the need for approval by NEMA.
An inspection of 25 stations, established that only 3 had carried out environment audits and that most of the firms/stations were ignorant of this requirement. In addition no environmental impact assessment was ever carried out at any of the stations visited.

There is a risk that operations of the petroleum companies could have serious environmental implications.

Management stated that the Regulations came into force in December 2009 and a public notice was issued in March 2010 requiring all operators to apply for (re)licensing. The reapplication period ended in September 2010. Since then twelve (12) Petroleum Construction Permits had been issued as at 15th February 2011. In addition, forty eight (48) Petroleum Operating Licences have been issued to twenty seven (27) oil marketing companies. As for the findings of the monitoring teams during the year 2009/2010, the salient issues were duly noted.

I advised him to have a database of all petrol stations established to capture pertinent information for monitoring purposes.

22.8 Performance Review (Uncompleted Activities During the Year)

A review of the Ministry’s performance during the year was carried out and an analysis of actual outputs made. The following was observed;

(a) Output 03032: Initiate and formulate Petroleum Policy & Legislation

The Oil and Gas Policy were formulated but the Oil and Gas law is still not yet in place and hence behind schedule. The Accounting Officer explained that due to the complexity of the law, it became necessary to consult widely both locally and internationally hence the delay.
(b) **Output 030402: Management and monitoring of Petroleum Supply Industry**

The Ministry was supposed to explore an alternative Southern Route for transportation of fuel supplies from the coast to ensure more (supply) availability of fuel. This activity had not been completed. The Accounting Officer stated that the modalities for clearance and use of the Southern route were still under consideration by cabinet.

(c) **Output 030501: Sensitization of local Government leaders**

The Ministry had planned sensitization of 15 local governments on Mineral Policy and regulation. However only 9 local governments were sensitized.

I advised the Accounting Officer to expedite the process of enactment of the Law to provide a sound base for exploitation and subsequent oil activities.

22.9 **Inspection of Seismological Stations**

Inspections of seismological stations were carried out to confirm their existence, operation and condition. Key findings are detailed below:-

**Hoima Station**

In my previous report I raised the matter of un-clear land ownership of the land housing the Hoima Station. This matter has remained unresolved. The Accounting Officer stated that the Ministry will apply for the land title of the plot housing the station. I advised him to expedite the action.

**Entebbe Station**

The Entebbe Seismological station was not functional and it was reported that the station stopped picking seismic signals in March 2010 when the Analogue broke down. At the time of inspection, the analogue had not yet been repaired. The Accounting Officer promised to have the seismological station repaired.
22.10 **Sustainable Management of Mineral Resources Project – June 2010**

(a) **Mis-Matched Project Budgeted Outputs And Key Component Activities**

Whereas the Project Implementation manual (PIP) of SMMRP clearly states and identifies key Components of the Project, the activity outputs and expenditure categories stated in the Budget book differ from the Project categories approved in the PIP and the project reporting requirements. I informed management that this mismatch creates difficulties in performance evaluation and monitoring of the Project.

Management acknowledged that there is need to liaise with planning unit of the Ministry in order to re-align the activity outputs (expenditure categories) to the project components so that the intended objectives of the project are fully achieved and performance evaluation is carried out without difficulties.

(b) **Uncompleted Project Activities**

A review of the performance reports for the activities and work-plans for year revealed that although the project is scheduled to end in June 2011, some activities have remained behind schedule. These activities include:

- No Operational Mining Cadastre and Registry System in place.
- Un-implemented Institutional Model for Department of Geological Surveys & Mines (DGSM).
- Delayed Construction and Renovation of DGSM Offices and Laboratory.
- Air borne geographical data processing and interpretation; although data is available, DAP server is not yet installed thus affecting the planned activities.

Since the project is scheduled to end in June 2011, there is a risk that the above activities will not have been completed by the end of the project.
Management in response attributed the delays to the lengthy procurement process and the fact that the Project financiers (World Bank (IDA), AfDB, NDF) did not come on board at the same time.

I informed management of the importance to ensure that all projected activities are completed before the end of the project.

(c) **Gross Tax**

A total of Shs.1 billion was budgeted and released under GOU funding for payment of taxes under this Project. However these funds were never utilized and were instead deposited to the Gross Tax receipts account in BOU from where it was transferred back to the Consolidated Fund. I indicated to management that this is a sign of under utilization/absorption of funds and poor budgeting by the Ministry which may result in unnecessary holding up funds while suffocating other sectors of the economy.

Management explained that they had anticipated settling taxes for the civil works activity whose implementation delayed and also other procurements of equipment that awaited completion of the civil works. I informed management to always ensure activity based budgeting.

22.11 **Audit Inspections of the Activities Funded under the SMMRP Small Grants Program (SGP) and Related Issues**

Under SMMRP various Associations and Groups received funds from the Small Grants Program (SGP) a Cost-sharing grants scheme that started with a pilot phase consisting of 18 groups in five Districts (Mukono, Kasese, Busia, Wakiso and Ntungamo) before being rolled out nationally.

The primary objectives of SGP were to:

- Promote economically, socially and environmentally sound practices in the Artisanal and Small-scale Mining (ASM) sector; and
• Reduce poverty by supporting integrated sustainable development of communities impacted or dependent on ASM activities.

Several districts in the pilot project areas were visited apart from Busia and Kasese districts where the contact persons were not available.

22.12 **JUA KALI Agencies: (Mukono)**

The group was registered in 2006 and deals in Brick laying.

(i) **Funding**

The Association applied for Shs.29,079,050 of which Shs.17,972,500 was approved but were credited with only Shs.8,986,250.

(ii) **Findings**

Of the planned activities it was observed that;

- No other equipment was at the site apart from a shelter, incomplete store and a big sign post.
- There was no pit latrine on site.
- A small sign post was fixed near the site and a bigger one was still in the store purportedly awaiting town council clearance for space to fix it. It’s value was not established.
- The extruder machine though a key instrument funded by the SGP grant was not yet purchased by the time of the audit inspections.

Shs.4,000,000 was purportedly deposited as part payment for the purchase of the extruder. However, verification of the agreement and invoice of the purported supplier proved the documentation to be fictitious. A further confirmation with the purported supplier revealed that only Shs.80,000 had been paid to him. The balance of the Shs.3,920,000 was not explained.

Further more, the group stated that the cost of the extruder and its components was Shs.7,500,000 yet another beneficiary had purchased the same equipment at Ushs.4,600,000 from the same supplier.
A balance of Shs.1,304,250 purportedly invested in brick works to raise more funds was not supported by any documentary evidence and thus the funds remain unaccounted for.

22.13 **Ecological Christian Organization (ECO); (Mukono)**

This was an indigenous non Governmental Organization working to improve the quality of life and sustainable livelihoods of the poor and vulnerable groups in Uganda and works with 75 unregistered groups engaged in brick making and Sand mining at Kisansa-Goma Sub-county Mukono District.

(i) **Funding**

The group applied for Shs.29,079,050 of which Shs.14,651,000 was approved but were credited with only Shs.7,325,500 on 16th March 2010.

(ii) **Findings**

It was observed that:-

- The two stance pit latrine is incomplete and not in use and does not seem to meet the expected standards of an ecosan pit latrine.
- A comparison of physical work done on the pit latrine vis a vis the amount spent revealed that the expenditure of Shs.3,000,000 appears inflated since the bricks, sand, labour and security were provided by members as own contribution.
- The site is next to a big heap of rubbish/garbage even though one of the project objectives is to improve the sanitation and hygiene of the group and to train the group in proper sanitation and hygiene. This exposes the members to health risks.
- A Local contractor Mr. Alex Ssenkayi was paid shs.3, 089,550 for construction of the fish ponds, however, no work had been done. These funds remain unaccounted.
22.14 **Bunonko Misoli Progressive Entrepreneur Association (Wakiso)**
Shs.2,338,350 was deposited on the Association’s account on 15th March, 2010 for the brick making project at Kigungu Ward, Division 1, Entebbe.

**Findings**
All the requirements were in place but there was no evidence of ongoing works. The brick making machine was lying idle in the Chairman’s courtyard. Without an identified store in place there is a risk of theft, pilferage and damage. No proper books were kept and no file for records and documents.

22.15 **Akwata Empola Miners Association (WAKISO)**
A sum of Shs.5,614,000 was received on 15th March, 2010 by the Association from the Ministry of Energy for excavating and sale of stones/hardcore.

**Findings**
Although the project (SMMRP) paid UGX.5,614,000 the Beneficiary (Akwata Empola) only acknowledged receiving UGX. 5,180,000.

Record keeping was poor and there was no file for documents. There are no records to support the expenditure on hiring of tractor and fuel costs. A sum of Shs. 493,000 was not accounted for.

Management in response stated that groups had only been disbursed 50% of the approved amount as first tranche and implementation of activities was still in progress. A review would be carried out by the Project Management in order to release the second tranche of 50%.

The field reports will determine which grantees are to receive the second tranche of funds. Those that will be found to have not complied with the SGP requirements will have to forfeit the second tranche and those that have not at all used the money will be tasked to refund the money. I await the details of the review.
22.16 **Strengthening the Management of Oil & Gas Project - June 2010**

(a) **Budget performance**

A budget analysis of the project established that the Project management budgeted for $2,143,307 for the six months for the 4 pillars of the project. However actual expenditure was only $851,090 representing only 39.7% of the budget performance, leaving a variance of $1,291,895 as detailed in table below.

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Budget (6months) USD</th>
<th>Actual Expenditure (6 months) USD</th>
<th>Variance .USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource</td>
<td>826,721</td>
<td>505,057</td>
<td>321,664</td>
</tr>
<tr>
<td>Revenue</td>
<td>652,500</td>
<td>236,496</td>
<td>416,004</td>
</tr>
<tr>
<td>Environment</td>
<td>572,623</td>
<td>104,140</td>
<td>468,483</td>
</tr>
<tr>
<td>Prog.Admin.</td>
<td>91,463</td>
<td>5,397</td>
<td>86,066</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,143,307</strong></td>
<td><strong>851,090</strong></td>
<td><strong>1,292,217</strong></td>
</tr>
</tbody>
</table>

I informed the accounting officer that failure to achieve approved work plans and budgets may lead to unnecessary extensions resulting in additional programme management costs.

The Accounting Officer stated that although The Project was supposed to commence in July 2009, it actually commenced in November 2009. There was also non-compliance with approved work plans and budgets and this was basically due to the delay in the approval of the Petroleum Resource Law and the Revenue Management Law on which basis most activities’ implementation lies.

22.17 **Strengthening the State Administration of the Upstream Petroleum Sector Project in Uganda - June 2010**

(a) **Lack of an Annual Procurement Plan**

Procurements under the project were carried out without a procurement plan contrary to the PPDA provisions in section 58.
Annual procurement plans help to rationalize procurements and ensure economy while avoiding split procurements made on adhoc basis. This also enables subsequent comparisons of planned implementation against actual procurements.

Management stated that during Annual General Meetings with donors, performance of the project for the previous period is reviewed and Workplans and Budgets for the New Year are discussed and approved. At this meeting the Procurements to be made during the subsequent year are approved. So the Goods and Services that were procured during the period under review were done in line with the Work Plans and Budgets approved during the Annual Meeting.

However, the AGM events neither address the issue of rationalization to ensure economy, nor the propriety of the actual purchases.

I informed the Accounting Officer that after the necessary donor approvals, the work plans and budgets are supposed to be amalgamated and incorporated in the entire Ministry’s procurement plan for rationalisation and aggregation to ensure efficiency and value for money.

22.18 Kenya-Uganda Oil Pipeline (KUOP) - June 2010

(a) GOU Counterpart Contribution

Government of Uganda was supposed to contribute USD.38,500 to meet 50% of the local cost of the Project activities. It was however noted that GOU counterpart contribution towards the project was not realized during the period under review. Failure to implement the financing provisions as stipulated in the agreement may lead to delays in implementation of planned project activities. This issue has persistently been raised in the previous financial years without any positive response.
(b) **Implementation Status of the Project**

Audit has noted that although Tamoil East Africa Ltd (TEAL) was procured in January 2007 as the private sector project developer, to date four years later there was no evidence of construction of the pipeline.

For the year 2009/2010 only 2 meetings were held in Eldoret, Kenya. Considering that the project started as far back as 1999 and the grant of USD 404,043 from ADB to finance preparatory/definitional activities was exhausted in the current financial year, there is need for a comprehensive review of the project performance vis-a-vis and its intended objectives.

Management responded that the project is still at its definitional phase and due to Uganda’s discovery of commercial crude oil, there was need to change the original project design to accommodate reverse flow of petroleum products from Uganda to Kenya. Management added that the parties are yet to agree on the requisite legal documents before TEAL can take a Final Investment Decision to commence the implementation phase.

22.19 **Power Sector Development Operation Project (MEMD) - June 2010**

(a) **Field surveys by UBOS to assess the impact of electricity shortages on households and industry**

Shs.153,511,120 was paid to Uganda Bureau of Statistics from the Power Sector Development Operation Project to carry out household surveys to assess the impact of electricity shortages on households. This was done following a Memorandum of Understanding with the Ministry of Finance, Planning and Economic Development spelling out respective roles and responsibilities with regard to this study.

It was established that although data collected by Uganda Bureau of Statistics was submitted to Ministry of Finance, Planning and Economic Development in October 2009, a final report had not yet been completed by the Ministry contrary
to Memorandum of Understanding terms which specified 28th February 2009 as the deadline for its submission.

In the absence of a final report from Finance ministry, I could not ascertain that funds were economically and efficiently utilized, and achieved the intended purpose in line with the project objectives.

Although Management in response stated that the Poverty and Social Impact Analysis was in its final stage and the draft report of the analysis had been submitted for relevant departments’ comments, this activity is over 1 1/2 years behind schedule.

(b) **Gross Tax**

During the year, an amount of Shs.50bn was released as G.O.U counter part funding for taxes under the project. This amount was never utilized but was instead transferred back to the Consolidated Fund. This is an indication of either under absorption of funds or over budgeting by the ministry which has the effect/impact of holding up finds in areas which they are not needed while depriving other sectors with priority needs.

Management explained that the allocation of taxes is top down and as a project they have no input in how much is to be allocated.

I however advised management that they should take interest in knowing how much is budgeted and released under G.O.U since ultimately they are the final beneficiary of the funding.

22.20 **Energy Fund-June 2010**

(a) **Acquisition of land in the Karuma hydro power Dam project area**

Following the withdrawal of M/s Norpak Power Limited from the Karuma Hydropower Project as an Independent Power Producer (IPP), Government decided to implement the project as a Public project. Government acquired the
intellectual property developed by Norpak and the rights over the project area at a cost of Shs.7,193,076.840. Included in the purchase is 104.876 Ha of leasehold land (15 years) on plot 42, Oyam block 1 Apach District and 98.5ha 5 year leasehold land on plot 9, Kibanda block 3, Masindi district. This land was valued at $1million by a Consultant.

It was noted that although the transfer forms were signed in November 2009, by the time of reporting, the land had not been transferred and yet one of the leases for the 98.516 hectare land was due to expire on 1st May 2011.

I advised project management that due to the risks associated with land, like illegal encroachments and allocations, it is imperative that this land be urgently transferred to Uganda Land Commission and properly gazetted for the Karuma dam project. I await management action on this matter.

23.0 GENDER, LABOUR AND SOCIAL DEVELOPMENT

23.1 Expenditure Not Accounted For (Shs.1,239,250,000)

23.1.1 Disbursements to Districts not accounted for

The Ministry received a supplementary funding of Shs.1,440,000,000 as a special grant to support Persons With Disabilities (PWDs). The purpose of the grant was among others to support income generating activities of PWDs, provide employment, and improve the income status and quality of life of PWDs. The funds were disbursed to 48 districts.

However, out of the total disbursements, only Shs.240,000,000 was accounted for by eight districts leaving the balance of Shs.1,200,000,000 disbursed to forty districts outstanding. In absence of accountability, I was not able to confirm that the grant was properly utilized on the activities.

The Accounting Officer explained that he had requested the remaining districts to provide the accountability.
I advised management to set up a monitoring mechanism to ensure prompt accountability.

23.1.2 **Transfers to Districts for PCY Activities**

The Promotion of Children and Youth (PCY) Programme operates in 19 districts. During the year under review, Shs.502,073,500 was disbursed to these districts to carry out activities in accordance with their respective approved work plans.

A review of the expenditure records revealed that disbursements to Soroti, Busia and Kumi districts totaling Shs. 39,250,000 remained unaccounted for by the time of audit in November 2010, contrary to financial regulations.

I did not obtain reasonable assurance that the funds were utilized on intended Project activities

23.2 **Budget Performance – Assessment of delivery Outputs**

During the year under review, the Ministry received about 97 per cent of its total budgeted expenditure. A review of the budget performance revealed that whereas in some areas the expected outputs were achieved, other arrears registered less than expected performance as indicated in the table below.

The key areas where the Ministry under performed were on recruitment of labour inspectors which registered less than 50 per cent of what was planned, job placements and inspection of work places.

<table>
<thead>
<tr>
<th>Planned Activities/Indicators</th>
<th>Expected Outputs</th>
<th>Actual outputs</th>
<th>Deviation</th>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAL completion rates by sex and age</td>
<td>210,000</td>
<td>170,633</td>
<td>39,367</td>
<td>Majority of learners are women who have other competing demands for their time. Limited facilitation to instructors.</td>
</tr>
<tr>
<td>Number of functional cultural industries</td>
<td>30</td>
<td>26</td>
<td>4</td>
<td>Due to financial limitations, the Ministry</td>
</tr>
</tbody>
</table>


<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of women groups supported</strong></td>
<td>1000</td>
<td>949</td>
<td>51</td>
</tr>
<tr>
<td><strong>No. of programmes for vulnerable groups monitored and evaluated.</strong></td>
<td>97</td>
<td>90</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Number of institutions affiliated to the ministry rehabilitated</strong></td>
<td>2</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>No. of job placements carried out by labour offices across the country</strong></td>
<td>1000</td>
<td>960</td>
<td>40</td>
</tr>
<tr>
<td><strong>Number of workplace inspections carried out</strong></td>
<td>700</td>
<td>370</td>
<td>330</td>
</tr>
<tr>
<td><strong>No. of new labour inspectors recruited</strong></td>
<td>26</td>
<td>11</td>
<td>(15)</td>
</tr>
<tr>
<td><strong>No. of labour laws, policies and guidelines reviewed, operationalized and enforced</strong></td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>
Management attributed the low performance to inadequate funding, understaffing and untimely release of funds experienced during the year. She also explained that although the performance was reflected as less than expected the majority of the outputs were above 80 per cent achieved.

23.3 **Procurement**

A review carried out on a sample of procurement files revealed the following matters;

23.3.1 **Evaluation**

As reported in the internal audit report there were instances where the evaluation was done by less than the recommended three members and/or less than the number approved by the contracts committee in contravention of Regulation 169 (3) of the PPDA.

Furthermore, the evaluation reports were in some instances signed by less than the number of members who carried out the evaluation. Failure by a member to sign the evaluation report may imply member’s dissatisfaction over the evaluation process.

23.3.2 **Code of Ethical Conduct in Business**

It is a requirement that the technical evaluation committee (TEC) members sign a code of ethical conduct and endorse on the appropriate forms provided for the purpose before carrying out any evaluations. However, a number of procurements were evaluated without TEC members signing the code of ethical conduct. This practice undermines the principle of transparency and integrity in the evaluation process.

Management was advised to ensure that all procurements are conducted in accordance with PPDA regulations and guidelines.
23.4 **Field Inspection**

The audit inspection of Mbale and Jinja Sheltered Workshops, Mpumudde Vocational Rehabilitation Center and Kampiringisa National Rehabilitation Centre revealed the following matters;

23.4.1 **Inadequate Staffing**

The staffing position at the various stations was inadequate. For instance, at Mbale Sheltered Workshop, there was a staffing gap of 11 staff; Jinja Sheltered Workshop had a shortage of 3 staff while Mpumudde Vocational Rehabilitation Centre had only one staff out of an establishment of 19. At Kampiringisa National Rehabilitation Centre, out of 30 approved posts, only 15 were filled. Poor staffing negatively impacts on service delivery.

The Accounting Officer explained that the Ministry restructuring exercise of 1998 never reviewed the structures of institutions and therefore no recruitment could take place in that period. Furthermore, under a new structure approved in 2007, the recruitment process could not take place because of inadequate wage provisions. She indicated that with an increment in the wage provision in financial year 2009/10, a recruitment plan was developed to address the problem.

23.4.2 **Under-funding**

Funding was still inadequate for all the centres inspected. At Mbale Sheltered Workshop, out of the 14 industrial sewing machines owned, only four were operational. The other 10 machines broke down and have never been repaired due to lack of funds. The industrial and commercial sewing machine at Jinja Sheltered Workshop was also lying idle due to lack of production materials. It was also observed that the infrastructure at Mbale Sheltered Institute was in a sorry state.

The Accounting Officer attributed these shortcomings to lack of funding.
24.0 EAST AFRICAN COMMUNITY AFFAIRS

24.1 Loss of Motor Cycle

Verification of fixed assets for the Ministry revealed a missing motor cycle which was reportedly stolen from a filling station. A copy of the Loose Minute to the Permanent Secretary indicated that the motor cycle was stolen on 10th June, 2009. However, the report to the Permanent Secretary by the Police on the alleged theft was written on 1st June, 2010, a year later, an indication of management laxity in follow up.

Management explained that they reported the theft to the Police. Although the loss was eventually disclosed in the financial statements, there was no evidence that the Ministry formally reported the loss to the Treasury as required by the financial regulations.

I advised management to have the loss reported to Treasury and followed up to its conclusion.

24.2 Budget Performance

The Ministry had an approved budget of Shs.16,936,318,592 for the period under review to enable it carry out planned activities as set out in the Ministerial Policy Statement. Despite a cash release of Shs.16,674,688,165 representing 99% of the approved budget, the ministry was not able to achieve the expected outputs on some of the planned activities, while on others assessment of performance was not possible due to inadequate information on performance indicators.

Budget Output Review (Basing on the Policy Statement)

<table>
<thead>
<tr>
<th>Planned Activities</th>
<th>Expected Outputs</th>
<th>Actual outputs</th>
<th>Deviation/Audit Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harmonization of EAC policies and programmes</td>
<td>Four protocols harmonized, 5 thematic areas in defense harmonized.</td>
<td>Expected outputs not disclosed.</td>
<td></td>
</tr>
<tr>
<td>Economic partnership</td>
<td>EAC – EC EPA</td>
<td>Expected outputs</td>
<td></td>
</tr>
<tr>
<td>Agreement, coordination, monitoring and evaluation</td>
<td>Agreements harmonized production and social decisions harmonized and implemented.</td>
<td>Not disclosed.</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
<td></td>
</tr>
<tr>
<td>Public awareness on EAC regional integration</td>
<td>Sensitize 45 districts create awareness country wide</td>
<td>5 districts not sensitized</td>
<td></td>
</tr>
<tr>
<td>EAC, SADC, COMESA policies and programmes coordination, monitoring and evaluation.</td>
<td>Meetings attended, 10 decisions implemented, 20 dedicated sessions held, 5 studies carried out.</td>
<td>Expected outputs not disclosed.</td>
<td></td>
</tr>
<tr>
<td>Payment of Uganda’s contribution to the EAC Secretariat</td>
<td>U Shs 9.807 billion remitted to the secretariat and U Shs 1.150 billion transferred to sensitization on regional integration.</td>
<td>Expected outputs not disclosed.</td>
<td></td>
</tr>
<tr>
<td>Ministry Support Services</td>
<td>Office facilities and equipment maintained, 6 months office rent paid, staff trained, 6 new staff recruited and 5 posts advertised.</td>
<td>15 posts still vacant.</td>
<td></td>
</tr>
<tr>
<td>Ministerial and top management services</td>
<td>4 top mgt meetings, 7 senior mgt meetings and 7 directorate meetings held. Decisions implemented.</td>
<td>Expected outputs not clear in terms of quantity.</td>
<td></td>
</tr>
<tr>
<td>Public awareness on EAC finance and human resource integration</td>
<td>6 workshops held, 15 talk shows, 7 press conferences, 12 supplements, 2 promotional events held, billboards erected.</td>
<td>19 workshops, 5 talk shows, 3 press conferences, 18 newspaper supplements, 8 promotional events not held.</td>
<td></td>
</tr>
<tr>
<td>Purchase of motor vehicles and other transport equipment</td>
<td>Three (3) motor vehicles procured.</td>
<td>Expected outputs not indicated.</td>
<td></td>
</tr>
<tr>
<td>Purchase of office and ICT equipment including software.</td>
<td>One (1) heavy duty photocopier procured.</td>
<td>Expected outputs not indicated.</td>
<td></td>
</tr>
<tr>
<td>Purchase of office and residential furniture and fittings</td>
<td>Assorted fixtures and furniture procured.</td>
<td>Expected outputs not indicated.</td>
<td></td>
</tr>
</tbody>
</table>
Management explained that some planned activities were not achieved due to the EAC 10th Anniversary Celebration activities which were planned to be financed and handled at the EAC Secretariat level but instead the five Partner States agreed to have celebration activities held at each Partner State. These activities had, therefore, to be drafted and fully sponsored within the available funds of the Ministry budget.

I advised management to strive and have all planned activities implemented. Management should also ensure that performance indicators especially information relating to expected outputs is properly articulated in the Policy Statement.

25.0 ETHICS AND INTEGRITY

25.1 Scope Limitation
Management did not provide me with the general and subsidiary ledgers which formed the basis of preparation of financial statements for the year.

I could not therefore verify the accuracy of the figures reflected in the financial statements.

25.2 Expenditure Unaccounted for
Payment vouchers relating to expenditure amounting to Shs.371,273,000 were not presented to me for audit examination hence limiting the scope of my audit. I was not able to verify the validity of the expenditure in question. The Accounting Officer explained that the vouchers were in the custody of the IGG.

An additional amount of Shs.42,054,700 advanced to an official to facilitate IAF Public Education and Awareness Program and meetings with the District Integrity Forum for Amuru and Lira districts also remained unaccounted for. I did not obtain reasonable assurance that the funds were utilised for the intended activities.
25.3 **Overstatement of Expenditure**
An analysis of the cashbook revealed that total expenditure during the year amounted to Shs.2,987,841,614. However, this was not in disagreement with Shs.3,117,155,809 that is reflected as total expenditure in the statement of Appropriation Account for the year under review.

Management has not provided me any explanation for this discrepancy.

25.4 **Transfer of balances to UCF**
According to the statement of changes in equity, a cash balance of Shs.175,442,224 relating to the previous year was transferred to the UCF. However, Note 20 reflects that the cash balances at the end of the previous year amounted to only Shs.37,838,280. No explanation has been provided regarding the source of the extra Shs.137,603,944 that was reflected as a transfer of balances to the UCF.

There is a possibility that the amount in question is misstated.

25.5 **Board of survey**
The board of survey was not conducted as required by the financial regulations. The accounting officer explained that all the relevant books had been taken by the IGG for investigations.

In absence of a Board of Survey report for Cash and stores, I was not able to confirm the accuracy of the cash balances stated in the report.

I advised that the procedure should be conducted as required.

25.6 **Disturbance Allowance**
According to chapter 1 Section E-I of standing Orders, disturbance allowance is paid when an officer is compulsorily transferred from one station to another in
the interest of the service and not as a result of a request by an officer. In the circumstances where the officer requests for transfer of his/her services, he/she is not eligible for payment of the allowance.

It was noted however, that an Officer was paid Shs.3,595,350 as disturbance allowance while on transfer of service from Pallisa District Local Government to the Directorate of Ethics and Integrity on his request.

The Accounting Officer regretted the anomaly and explained that a recovery process had been initiated for the amount paid out in error.

25.7 **Supply of Brand New Isuzu Double Cabin Pickups**

The Directorate of Ethics and Integrity contracted a company to supply five Isuzu Double Cabin Pickups at a cost of US$.133,255. Accordingly, the payments amounting to Shs.301,422,810 were made to the firm.

The following matters were observed from the records availed for audit review:-

a. Although the contract provided that payment would be made 30 days after the contract, advance payments were made to the firm. It was further observed that the firm presented an advance payment guarantee from Barclays bank dated 23rd June 2010, which expired on 5th August 2010, and by the time of audit in October, 2010, the five vehicles had not been delivered. There is a risk of loss of funds in case the firm fails to deliver.

b. There is also no evidence that the firm provided 10% performance security as required by GCC 16.3.

Management explained that at the time of receiving the advance payment guarantee, the expectation was that all taxes would be paid by MOFPED before the end of 2009/2010 which was not done. It was further explained that the vehicles had been delivered into the country and were in a customs bonded warehouse.
I have advised management to ensure that expiry dates for advance payment guarantee are extended to avoid the risk of loss of public funds in case the suppliers fail to deliver.

25.8 **Vacant Posts**

It was noted that out of the 48 established posts for the Directorate, 19 were vacant. This implies that some members of staff were overstretched since they were undertaking activities beyond what was stipulated in their job description. The Accounting Officer explained that, the Directorate had delayed to fill the vacant posts because some categories of staff especially the Legal and Ethics officers were difficult to attract due to low salaries paid to public officers. The directorate has therefore proposed a review of its salary structure to make these jobs attractive.

I advised the Accounting Officer to liaise with the relevant government bodies to ensure that he achieves a full establishment.

25.9 **Fixed Assets Management**

It was noted that the Fixed Asset Register was not properly maintained during the period under review. For example the details for unique identification numbers and location of assets were lacking in the Register. All the directorate vehicles and three office desks were also not posted to the Register. It was also noted that eleven computers, four Television sets, a video Teleconferencing machine, one photocopier and a fridge were not engraved with the Directorate name and identification number. This weakens controls over such assets.

Management explained that they had communicated to MOFPED to avail them with the fixed asset management software which is still being awaited.

I advised the Accounting Officer to strengthen controls over all government assets in the department’s possession.
26.0 **UGANDA POLICE**

26.1 **Excess Expenditure**

The Department incurred expenditure of Shs.3,034,365,555 above the approved budget of Shs.206,158,105,000 without seeking approval of Parliament contrary to financial regulations. Excess expenditure is an indication of weaknesses in controls over budgetary expenditure.

The Accounting Officer was advised to spend within the approved budget. Where additional resources are needed, virement, reallocations or supplementary appropriations should always be sought in accordance with the Public Finance and Accountability Act.

26.2 **Adjustment of Domestic Arrears**

Included in the statement of changes in Equity is an adjustment to domestic arrears of Shs 599,316,930 of which only Shs.50,993,711 was explained by way of a note to the Statement of Outstanding Commitments as an over provision of liability to a telecommunications company. The difference of Shs.548,323,219 was not explained and has a material effect on the domestic arrears balance reported at financial year end.

I advised the Accounting Officer to provide justification for the adjustments.

26.3 **Inadequately Supported Expenditure**

A total of Shs.773,653,358 paid to various suppliers for provision of goods and services lacked adequate supporting documents.

In absence of supporting documents, I could not confirm whether the goods and services were delivered and utilised by the Ministry.

I have advised the Accounting Officer to avail the supporting documents for verification.
26.4 **Delivery of Building Materials to Natete Police Station**

A total of Shs.458,900,899 was paid to various suppliers for supply of building materials for construction of Natete Police Station. However, audit inspections carried out in October and November 2010 at the Police station revealed that there was no construction taking place at the site and there were no approved structural and architectural plans for the police station. The procurement of building materials was done using a call off method which resulted into suppliers charging relatively higher prices than the market prices then. By the time of audit in November, 2010, the construction works had not started a year after the station was burnt down.

Verification of the available documents further revealed that out of Shs 234,082,500 used for procurement of site materials for the station, UPF was erroneously charged Shs 35,707,500 by the suppliers as 18 percent VAT on supply of items like aggregate, murram, lake and plaster sand, bricks, eucalyptus poles, hard core and stone dust contrary to the VAT Act.

Shs 154,462,000 was paid for cement at a cost of Shs 29,750 per bag. However, there was an additional charge of 18 percent VAT which increased the price of cement to Shs.35,105 per bag, a price which was too high given that the market price of cement was Shs.25,000 on the open market. Furthermore, documents relating to the procurement of steel items worth Shs.70,418,772, 550 were not provided for audit verification. It is unlikely that UPF achieved value for money in respect of these procurements.

I advised the Accounting Officer to investigate the procurements and to always follow the recommended procurement and contract management procedures.

26.5 **Undelivered Uniports**

The UPF opened a Local Letter of Credit with Bank of Uganda of Shs.2,470,499,804 in favour of a company for supply of 847 Uniports. According
to the contract agreement the Uni-ports were supposed to be delivered either within two weeks of signing the agreement, or on placement of the order.

However by the time of writing this report in March 2011, the firm had delivered only 654 uniports, nine months after the payment, leaving a balance 193 uniports undelivered. Although the company breached the contract, the department did not take any action.

The Accounting Officer explained that the final delivery was expected in April 2011.

I advised the Accounting Officer to review the contract with a view of invoking the mitigating clauses.

26.6 **Withholding Tax**
It was noted during the audit that Shs.390,430,855 was deducted from suppliers in respect of withholding tax and remitted to URA. However, receipts totalling to Shs.316,193,573 only were availed and verified leaving a balance of Shs 74,237,282 still outstanding.

26.7 **Construction of Olilim Classroom Block**
The police force paid Shs.164,029,273 to BOU for opening a letter of credit in favour of a company contracted for the construction of a classroom block “A” at Olilim in Katakwi, under PRDP and KIDDP.

However a physical verification of the works at the site revealed the following:

- The semi concrete ceiling was sagging and was almost falling down.
- The windows and doors were not properly fitted and were not closing properly.
- The wall plaster was peeling off and the walls were cracking.
Although the Accounting Officer explained that the contractor had resumed work and was correcting the snags, by the time of writing this report there was no proof that the snags had been corrected.

26.8 **Stalled/Abandoned Works**
A review of various contracts under implementation in the UPF revealed that over 20 contracts had either stalled or been abandoned or completely left unattended to by both the contractors and the UPF. This was partly attributed to DPCs (the users) not being involved in their supervision and lack of capacity to supervise the huge number of projects under construction. By the time of writing this report the UPF had contracted out 70 sites to contractors which had not been completed. Failure to involve the users at the sites partly explains why the Police was getting shoddy works.

The Accounting Officer explained that the main problem was the delay by the Ministry of Works Engineers in certifying the works leading to delays in effecting payment to the contractors.

26.9 **UPF Fleet Management of VIP Motor Vehicles and Motor Cycles**
Government of Uganda hosted CHOGM in 2007 and to facilitate the movement of VIP’s during that period, UPF was availed a fleet of 60 brand new VIP Subaru lead motor vehicles and 80 motorcycles. The fleet is managed by the VIP unit and is used whenever there are state dignitaries attending conferences in the country. However, an audit inspection carried out at the Police main workshop at old port bell road revealed the following matters;

- The motor vehicles and motor cycles were procured without standard tool kits, spare tyres, manual/software, remote car chargers.

- At the time of audit in December, 2010, 36 motorcycles had been grounded because they required reprogramming and yet the necessary tools used for
diagnostics were lacking, and the remaining 44 motor cycles had a series of mechanical problems.

- The technical staff/mechanics at the workshop lacked professional skills and knowledge to handle the technical aspects of the BMW motorcycles.

- The UPF mechanical workshop is not able to cope with the big burden of acquiring parts, some of which are not available on open market.

- The unit resources are inadequate in situations of emergencies when the motor cycles are required for escort duties.

- Due to constant none usage; the maintenance costs for the VIP vehicles had become high. For example, test driving, which was done only once a month was consuming between 20-25 liters of fuel per vehicle, warming of vehicles which was being done from Monday to Friday with an average fuel usage of 5-15 litres.

- Due to the parking of the motor cycles for longer periods they required replacement of two batteries whenever they were to be used. All accessories like batteries, head lumps, bulbs, indicators and lenses/bulbs were also replaced whenever there were VIPs visiting the country.

- The most common spare parts required which include clutch plate components, suspension system, transmission system, driving shafts, propeller shafts, cross bearings and ignition systems (sparks plugs, high tension leads & starter motors were not available on the open market.

- All the Vehicles were being parked outside in the open space and were being subjected to harsh conditions. There is a need to construct a shed for these cars.
The roof lights had not been serviced since 2007 and most of them were not functional.

There is a risk of the funds used to procure the motor cycles being wasted because they cannot be used.

I have advised the Accounting Officer to ensure that the responsible technicians undergo the requisite specialised training necessary for the proper maintenance of the fleet.

26.10 **Rented Accommodation for the Uganda Police Force**

A total of Shs.157,922,660 was paid to various landlords for the provision of rentable accommodation for various Police Stations, posts and out-posts. However, the expenditure was not supported with invoices/demand notes or acknowledgement receipts issued by the Landlords. It was also observed that arrears of rent amounting to Shs.121,884,000 were not supported with tenancy agreements.

In absence of formal demand notes, acknowledgement receipts and tenancy agreements I was not able to confirm the validity of the expenditure.

A scrutiny of the supporting documentation revealed that although the landlords were paid by EFT and formal complaints filed in the respective individual files, the rent arrears, stood at Shs.1,237,661,595 as at the close of the year under review.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent arrears supported by tenancy agreements and valuation</td>
<td>935,798,595</td>
</tr>
<tr>
<td>Rent arrears supported by only tenancy agreements</td>
<td>176,979,000</td>
</tr>
<tr>
<td>Arrears without tenancy agreements</td>
<td>121,884,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,237,661,595</strong></td>
</tr>
</tbody>
</table>
26.11 **Renovation of Police Barracks**

The Uganda Police Force paid a total of Shs.1,062,366,057 to Bank of Uganda for opening Letters of Credit in respect of two firms contracted to carry out major renovations at Lira Police Barracks at a cost of Shs.558,528,695, and at Gulu Police Barracks at a cost of Shs.503,837,362.

Physical inspections carried out during the month of November 2010 at the two Police Barracks revealed the following:

<table>
<thead>
<tr>
<th>Station</th>
<th>Contract Sum (Shs)</th>
<th>Audit Observations</th>
</tr>
</thead>
</table>
| Lira Police Barracks | 558,528,695        | • The poles used to fence the site were very weak. Some of them had been broken by the public at the time of inspection.  
• No provision had been made by management for temporary accommodation of personnel whose houses were to be renovated.  
• Renovations were carried out without carrying out any pre-assessment by an engineer. |
| Gulu Police Barracks | 503,837,362        | • The contractor had not started renovation.  
• The poles used to fence the site were very weak. Some of them had been broken by the public at the time of inspection. |

I advised the Accounting Officer to always take necessary precautions before any renovation work was undertaken to avoid unnecessary and unwarranted contract variations.
26.12 **Audit Inspections**

Inspections were carried out in selected Police Units and the following issues were observed:-

(a) **Staffing**

As reported in 2008/2009, the staffing levels compared with the establishment remained low, for example at Kabalye Police Training School out of the 88 cooks at the school, only 14 had accessed the payroll while the remaining 74 cooks who had not yet accessed the payroll, were going without wages for many months. In other units inspected most of the police personnel had been recalled for a course on community policing which affected most of the stations staffing.

The Accounting Officer explained that there was continuous recruitment of personnel.

(b) **Revenue**

Revenue is collected through Express Penalty Scheme, guard services and police reports. Although revenue collections from the foresaid sources had increased the record keeping problem had persisted.

The station heads were advised to improve on the record keeping using the available revenue books availed by the Headquarters.

(c) **Land titles**

It was noted during the audit that the force had constructed police stations on land that did not have land titles in the following areas:

- Kabalye police training school in Masindi
- Katakwi ASTU Headquarters
- Iganga police station
- Namutamba police station

Although the Accounting Officer stated that the process of acquiring land was in progress, by the time of writing this report, the process had not been completed.
(d) **Sanitation**

It was noted during inspections that some police stations/institutions lacked adequate and proper toilets. These included:

- Kabalye police training school,
- Ntungamo police station.

(e) **Office Block Constructions**

The status of construction of office/administration blocks in the various districts was as follows:

<table>
<thead>
<tr>
<th>District</th>
<th>Construction Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abim</td>
<td>Not started</td>
</tr>
<tr>
<td>Pader [Lapono]</td>
<td>Roofed but not yet plastered</td>
</tr>
<tr>
<td>Kitgum</td>
<td>Status not changed, roofed and near complete</td>
</tr>
<tr>
<td>Bukedea [Akakat]</td>
<td>Construction was at wall plate level(stalled)</td>
</tr>
<tr>
<td>Sironko</td>
<td>Not started yet</td>
</tr>
<tr>
<td>Bukwo</td>
<td>Roofing level</td>
</tr>
<tr>
<td>Katakwi Palam</td>
<td>The digging of the foundation had started</td>
</tr>
<tr>
<td>Katakwi [Zonal]</td>
<td>Not started</td>
</tr>
<tr>
<td>Chepskunya</td>
<td>Near complete</td>
</tr>
<tr>
<td>Ollilim</td>
<td>Classroom block was complete but with a sagging ceiling due to poor workmanship. Classrooms not plastered Work is incomplete and site abandoned</td>
</tr>
<tr>
<td>Ollilim PTS</td>
<td>Office block Construction work had been abandoned as there was no body at the site However, the work so far done appears good</td>
</tr>
<tr>
<td>ASTU H/quarter building</td>
<td>Complete but veranda and quadrangle had deep cracks. There was n provision for an armoury</td>
</tr>
<tr>
<td>Namutamba police station, staff houses</td>
<td>Construction was at foundation level.</td>
</tr>
</tbody>
</table>
• Lack of communication systems at police stations like Iganga police station,
• Grounded motor vehicles because of lack of funds,
• Unplanned food deliveries especially during harvesting season when it is not required.
• Training gumboots at Kabalye training school that were found to be sub-standard because they were only lasting three months,
• Newly constructed 10,000 litre steel tank at Kabalye training school that was leaking.

27.0 UGANDA PRISON SERVICES

27.1 Excess Expenditure (Shs.4,742,541,064)

According to the Statement of Appropriation, the entity incurred expenditure amounting to Shs.3,426,397,364 over the approved budget. This amount includes farm produce of Shs.1,790,270,404 that was consumed at source at various prison stations without being appropriated by Parliament.

The accounting officer explained that the matter of food grown and consumed at source has now been appropriately included in the budget and will not cause excess expenditure in future.

The Accounting Officer has been advised to have this expenditure regularized in accordance with the Public Finance and Accountability Act 2003.

27.2 Accumulation of Domestic Arrears (Shs.6,825,658,197)

According to the commitment control system, entities are supposed to enter into commitments after confirmation of availability of funds. The Statement of Outstanding commitments however shows that Prisons Service incurred commitments amounting to Shs.2,977,765,822 during the year, implying that there were no funds to meet these obligations. This led to an increase in domestic arrears from Shs.4,947,891,375 at the beginning of the year to
Shs.6,825,658,197 at the end of the year. It was also observed that minimal progress had been made in settlement of the previous arrears.

The Accounting Officer explained that the amount released for the purpose could not pay for all the domestic arrears.

I advised the accounting officer to desist from over committing government.

27.3 **Over Remittance of 6% WHT to URA**

A total of Shs.28m was over remitted to URA in respect of WHT deducted from various suppliers during the year under review. This amount had not been recovered by the time of writing this report. Such overpayments indicate weaknesses in controls over payments.

Management explained that they were undertaking reconciliations with URA to determine the amount recoverable.

I have advised the Accounting Officer to review and strengthen the controls over the payment system and also follow up the matter with URA.

27.4 **Letters of Credit**

The financial statements show receivables of Shs.1,622,246,271 representing LCs opened in June 2010. By the time of this audit, the LC amounting to Shs.1,026,286,987 in respect of Oyam Prison had not yet performed. Delays in performance may lead to increased costs.

The Accounting Officer is advised to ensure timely implementation of the contract to avoid losses.
27.5 **Amount Not Refunded To Treasury**

A total of Shs.5,512,574 reflected as balances on the collection accounts of the previous financial year has remained on the account for over one financial year without being transferred to the UCF as required by Regulations. According to the Accounting Officer, these were balances in various upcountry bank accounts.

I advised the Accounting Officer to liaise with the Accountant General to have the funds transferred to UCF.

27.6 **Prisons Training School**

The Prisons training school was in a very sorry state. The whole infrastructure was completely dilapidated and needed urgent repairs to enable it serve its intended purpose. I advised the Accounting Officer to provide for the general renovation of the school in order to improve the image of the Prisons Service.

The Accounting Officer explained that a plan was in place to renovate the Prisons training school in the 2011/12 budget and preliminary work would soon be done on the premises.

27.7 **Cost Benefit Analysis For Farm Production**

It was noted that the Prisons Service had not undertaken a cost benefit analysis to establish the value derived from the production of own food by the prisons farms, as opposed to outright purchase. This implied that vital information that was needed for informed decision making was not available to management. It was also observed that it had not established a formal system for measuring and evaluating the performance of farms. Losses and inefficiencies may have occurred without timely management intervention.

I have advised management to introduce a proper system for measuring and evaluating performance of the farms to facilitate decision making.
The Accounting Officer explained that the department was intending to engage a consultant to do an independent evaluation for a business plan and farming strategy.

27.8 **Performance of the Work Plan**

A review of the implementation status of planned activities revealed that several planned activities were not fully implemented by the year end as exemplified below:-

<table>
<thead>
<tr>
<th>Actual Outputs</th>
<th>Targeted Outputs</th>
<th>Deviation from the plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Result Area 2: HUMAN RIGHTS CULTURE FOSTERED ACROSS JLOS INSTITUTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 155 of 222 prison units have revitalized Human Rights committees. This is a 70 percent achievement.</td>
<td>• 100 percent revitalization of Human Rights committees in 222 units.</td>
<td>• 30 percent deviation from target.</td>
</tr>
<tr>
<td>• Training of 194 of 800 staff in basic Human Rights and detainees rights as compared to 1,082 trained in FY 2008/09.</td>
<td>• to achieve 100 percent staff awareness of their basic rights &amp; detainees rights. This was to be done through training staff in basic knowledge on their human rights and those of the detainees so as to reduce on the HR violations.</td>
<td>• Only 24 percent staff were trained in FY 2009/10.</td>
</tr>
<tr>
<td>• Construct prisoners wards in Mbarara prison. The holding capacity will increase at completion hence reducing congestion.</td>
<td>• To construct three prisoners' wards, double chain fence, water and sanitation and renovation at Mbarara prison, Bushenyi and Oyam prisons. Accommodation increased.</td>
<td>• Wards for inmates in Mbarara prison constructed up to plastering awaiting completion. Bushenyi works not yet began. Consultant produced final design.</td>
</tr>
<tr>
<td>• Bucket system eliminated from all prisons.</td>
<td>• Repair and renovation of sewage system in various stations.</td>
<td>• Only 40 percent achieved</td>
</tr>
</tbody>
</table>
Key Result Area 3: ENHANCED ACCESS TO JUSTICE FOR ALL ESPECIALLY THE POOR & MARGINALISED

- 563 of 1,700 former LAP staff retrained in prisons work.
- 1,700 LAP staff retrained in Prisons work to enhance professionalism in prisons.
- 33 percent of the targeted number retained.

- Improved accommodation space. 2-prisons wards at Moroto prisons, 1-female ward at Luzira (W) of holding capacity of 32 inmates, started construction of Kitalya prison, electrical installation in Arua prison, renovation of sewerage line in Fortportal, Soroti prison and Gulu prison.
- to renovate & improve accommodation space for inmates from 9,428 to 13,678 by 2010 or reduce occupancy levels from 205% to 145%.
- despite constructing more wards the congestion rate has not reduced due to increased crime rate. Overall Congestion as at reporting time was 233 percent.

- reduced remand population from 58 to 55 percent through continuous production of inmates to various courts.
- to reduce remand population to less than 50 percent of the total population.
- remand population still high despite continuous production of inmates to various courts.

The Accounting Officer explained that some activities were not wholly achieved due to insufficient funds, late releases, long procurement process, and the re-integration of Local administration prisons (LAPs).

I advised the Accounting Officer to strive to have all activities for which funds have been released to be implemented according to plan. Dialogue with the donors for their continued financial support is strongly encouraged.

27.9 Congestion in Prisons Facilities Across the Country

It was noted that there was overcrowding in almost all the prison units in the country. Although some efforts had been made to address the matter through the support of the JLOS project, the number of inmates had continued to increase causing immense congestion in these prisons.
The effect of such overcrowding on the spread of infections and moral decay cannot be underestimated. A sample of 10 prison units considered revealed the following numbers:

<table>
<thead>
<tr>
<th>Prison Unit</th>
<th>Recommended number of inmates</th>
<th>Actual numbers (July 2009 UPS Records)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luzira Upper</td>
<td>668</td>
<td>2,403</td>
</tr>
<tr>
<td>Luzira Women</td>
<td>76</td>
<td>283</td>
</tr>
<tr>
<td>Jinja Men</td>
<td>336</td>
<td>789</td>
</tr>
<tr>
<td>Ndorwa</td>
<td>71</td>
<td>253</td>
</tr>
<tr>
<td>Rukungiri</td>
<td>69</td>
<td>376</td>
</tr>
<tr>
<td>Ragem</td>
<td>24</td>
<td>538</td>
</tr>
<tr>
<td>Lira</td>
<td>129</td>
<td>530</td>
</tr>
<tr>
<td>Loro</td>
<td>32</td>
<td>139</td>
</tr>
<tr>
<td>Amita</td>
<td>16</td>
<td>122</td>
</tr>
<tr>
<td>Bufulubi</td>
<td>127</td>
<td>353</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that congestion in prisons was due to increase in the prisoners’ population without corresponding increase in accommodation space. He explained that prisoners’ population had been increasing at an annual average of 8.5 percent which is way above the international growth rate of 3.56 percent adding that management had carried out constructions and renovations of prisons wards in various units to try and minimize the problem.

I advised that management to continue liaising with other relevant stakeholders to address the problem.

27.10 **Non Functioning Sewage System in Luzira**

The sewer system in Luzira was hardly functioning. The lagoons under the Uganda Prisons Services were not being maintained at all. There was a lot of sewer spillage in the complex by the time of the inspection, causing a bad stench in the area. This was very unhygienic and portrayed a very bad image of the institution.
The Accounting Officer explained that the Department planned to use shs.220 million from GoU and part of shs.766 million E.U. funding during the financial year 2010/2011 to rehabilitate the sewage system.

27.11 **Inspections**

a. **Redundant hatcheries complex at KIGO Prison**
The hatcheries and other buildings which were meant for poultry production were all lying idle since 2007 when production stopped due to minor technical break down. The facilities were acquired with the objective of commercial production of day-old-chicks. The machine was donated to Uganda prison service in 1992 by DANIDA, and was at the time valued at Shs.92,000,000. The capacity of the brooder is 120,000 eggs and can hatch 20,000 chicks in 21-days.

In addition, the ownership of the land had not yet fully been resolved. Kigo prison is one of the properties of Buganda Kingdom which were supposed to be returned by the Government. Management had apparently lost the zeal to revamp production since Government had in principle agreed to return this property to its legitimate owner.

The Accounting Officer explained that the machine had outlived its lifespan and they intend to board it off since maintenance costs were unsustainable. He also indicated that since government was relocating the prison in the near future it was not prudent to renovate the hatchery; a small and affordable hatchery was instead being procured.

b. **Inmates wards not being used at Bugunqu - YP Prison**
An inspection at the prison revealed that three out of eight wards were not being used because of their poor conditions. The ceiling boards in all the buildings had become weak and were collapsing although the walls, roof, shutters and floor all appeared to be still strong. A close observation revealed that all the three blocks could still be put back to use once the ceilings were replaced.
I advised management to expedite the renovation process of the wards to avoid further deterioration of the buildings.

c. **Kitalya Prison**

(i) **Renovation of wards**
Inspection of renovation works at Kitalya prison revealed that 13 blocks were to be re roofed, painted and existing wards redone (masonry work, repairing of leaking roof and painting). However, not much progress had been done by the time of audit. It was further noted that several renovations were being done by giving cash advances in small amounts to the OCs thereby avoiding use of PPDA regulations.

(ii) **Understaffing**
Whereas the recommended staff-inmates ratio is 1:3, 71 uniformed staff were found at the station giving a ratio of 1:9 which was too high.

(iii) **Medical**
Although the station had a sick bay and 3 civilian medical personnel, drugs which were supplied by Murchison Bay Hospital Luzira were neither adequate nor regular. It was reported that due to this shortage of drugs, inmates were forced to fake sickness when supplies arrive so as to hoard for future sickness.

Management attributed this to the under-funding of the prisons medical services. I advised that more effort should be made to improve on the adequacy of drugs supplied to the stations.

(iv) **Fixed Asset management**
Inventory and Asset Registers are not being maintained. Additionally, the assets are not engraved. This weakens controls over such assets.

(v) **Buildings and Infrastructure**
A total of four new blocks had been completed housing seven wards under contract, number UPN/WKS/08-09/00545 OF 15/07/09.
It was however noted that 13 blocks including the kitchen and administration block and staff quarters were in a very poor state and needed immediate renovation. There were no toilets inside these old wards and prisoners were using buckets to ease themselves, which they emptied into the pit latrines in the morning. The administration block had no roof as the iron sheets were blown off by wind.

(vi) **Lack of Land Title and apparent under utilization and improper use of land**

The Prison land covers 900 acres but only 300 acres were reported to be in use mainly for the production of maize. The largest chunk of 600 acres was being used to graze only 15 head of cattle that reportedly belong to Government. I could not establish the total harvest per season, because of lack of proper records. The value of food eaten at source was not documented.

It was also observed that the prisons land was not fenced. This made it highly vulnerable to encroachment.

The Accounting Officer explained that the process of obtaining land titles had started and would soon be obtained.

I advised that the management strategy of this farm be reviewed in order to improve its performance.

27.12 **Follow up of Internal Audit Recommendations**

a. **Deletion of retrenched/Retired staff from the payroll**

It was noted that delays in deletion of retired/retrenched staff from the payroll resulted into loss of public funds totaling to Shs.10,619,576 in the period under review.
Management attributed this anomaly to the delays by the Ministry of Public Service to adjust the payroll but had also initiated the process of recovering the amounts in question from the affected former staff.

b. **Dismissal/Resignations**
A total of 50 staff were dismissed while 6 resigned during the financial year under review. The resignations of the 6 staff were against section A (10) of the standing orders 2010 which bars public officers from removing themselves from office.

I advised management to always adhere to the Standing Orders.

c. **Desertions**
The majority of the dissertations were at the rank of Warder/Wardress which stood at 49 for the financial year 2009/10. The highest dissertation rates were among the low cadre staff.

Management was advised to investigate the causes of the desertions and address them appropriately.

**28.0 MULAGO HOSPITAL**

28.1 **Over expenditure on Employee Costs**

The hospital incurred over expenditure on the following budget line:

<table>
<thead>
<tr>
<th>Details</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>16,937,266,000</td>
<td>17,072,633,023</td>
<td>-(135,367,023)</td>
</tr>
</tbody>
</table>

There was no evidence to show that the hospital obtained authority in form of a reallocation or virement warrants for incurring the over expenditure. This was contrary to the Public Finance and Accountability Act.
I have advised management to always ensure that appropriate authority is sought before incurring such over expenditure.

28.2 **Domestic Arrears**

During the year under review, the hospital incurred a total of Shs.1,114,496,685 as domestic arrears contrary to the commitment control system of government that prohibits Accounting Officers from committing government beyond the funds available in a given financial year.

Additionally, documentation relating to this expenditure was not availed for audit examination. This limited the scope of my audit.

I advised the Accounting Officer to ensure adherence with the financial regulations in future.

28.3 **Release Not Credited to the Treasury General Account**

A review of the hospital’s Treasury General Account revealed that a release of Shs.646,000,000 issued by the Accountant General on Release Advice number 20142 dated 30th November, 2009 was not credited to the hospital’s Treasury General Account with BOU.

The Accounting Officer explained that the Ministry of Finance was informed of this anomaly but no action was taken.

I advised the Accounting Officer to follow up the matter with the Accountant General, until it is resolved.

28.4 **Letters of Credit (LCs)**

According to the ledgers, previous LCs performance amounted to Shs.997,143,121. However, the details of the items/services delivered and their supporting documents were not availed for audit examination.
Additionally, a letter of credit worth Shs.1,281,803,200 was opened with BOU in favour of a Company for procurement of a CT-Scan. However, evidence of performance of this LC was not presented for audit examination.

I advised the Accounting Officer to have all the required records availed for audit as required by the National Audit Act 2009.

28.5 **Assessment of Delivery of Outputs**

It was noted that some planned outputs of the hospital for the year under review were not fully implemented despite the fact that the hospital received all the funds for the activities as budgeted. These impacts negatively on service delivery.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Targeted Output</th>
<th>Actual Outputs</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output: 085401 Inpatient services – National Referral</td>
<td>- 140,000 patients attended to</td>
<td>- 139,422</td>
<td>578</td>
</tr>
<tr>
<td>Output: 085402 Out patients services – National Referral Hospital</td>
<td>670,000 general outpatients attended to</td>
<td>606,020 (Statistics Unit) 41,384 Emergencies attended to 35,488 Specialized cases attended to (Health Sector M Policy Statement FY 2010/2011)</td>
<td>64,000</td>
</tr>
</tbody>
</table>

I advised management to ensure that all planned activities are always implemented on time for effective service delivery.
28.6 **Salary Bank A/C**

Every financial year, the hospital opens new bank accounts with the Bank of Uganda (BOU). It was however noted that the Salary bank account number 001.292161.1 with BOU had an opening debit balance of Shs.3,019,651,533. It was further noted that the account remained with the debit balance throughout the financial year. No explanation was availed for this debit balance at the commencement of the new financial year.

The Accounting Officer explained that salaries are processed on a ‘straight through process’ by the treasury and was therefore not in position to explain the reason for this occurrence.

I advised the Accounting Officer, to establish the cause of this anomaly and have it appropriately handled.

28.7 **Utilities**

It was noted that quarterly deposits amounting to Shs.764,000,000 and Shs.1,759,080,000 were made to NWSC and UMEME respectively, during the year under review. A further Shs.1,399,998,000 and Shs.300,000,000 was paid to NWSC and UMEME respectively in settlement of domestic arrears.

However, the related bills, receipts and reconciliation statements for the utility companies were not availed for audit. Failure to undertake proper reconciliations, could lead to loss of funds.

I advised the Accounting Officer to regularly undertake reconciliations of the utility accounts with the provider.

28.8 **Lack of a Procurement Plan**

Mulago Hospital Complex did not have a Procurement Plan for the year under review to guide the procurement of goods, works and services, contrary to the PPDA regulations. Failure to prepare procurement plan could result into procurement delays and stock outs of needed supplies.
I advised management to always ensure adherence with the procurement law.

28.9 **Lack of Performance Security**

A contract to construct the PPS Pharmacy was awarded to a Company at a contract sum of Shs.132,234,731. This amount was later revised to Shs.216,064,136, an increment of 63 per cent from the original contract sum. In a letter dated 10\(^{th}\) December 2008 PPDA gave a waiver for the variations and additional works with a condition that Management furnishes PPDA with among others the Performance Security. However, there was no evidence that the performance security was actually provided. Lack of performance security can lead to loss of funds in the event of the contractor failing to deliver on the contract.

I advised management to ensure that a performance security is always obtained for all contracts as required by PPDA regulations.

28.10 **Vacant Posts**

According to the establishment structure, the hospital has 1,083 approved posts. However, it was noted that only 1,011 were filled, leaving a total of 72 posts vacant. Failure to have all posts filled impacts negatively on service delivery.

Management was advised to liaise with the Ministry of Public Service and the Health Service Commission to have the vacant posts filled.

Management explained that the vacant posts had been declared to the appropriate authority and their action is awaited.

28.11 **Expired Staff Contracts**

The hospital employs a number of staff on contract under the Private Patients Scheme (PPS) and pays them from NTR collections. According to the staff list dated October 2010, there were employees whose contracts had expired yet
they continued receiving salaries, without renewal of the contracts in question. This was irregular.

I advised the accounting officer to regularize the appointments of the concerned employees.

28.12 **Staff Training Arrangements**

Mulago Hospital Complex did not have a Staff Training Plan during the year under review despite the fact that the Hospitals’ Strategic Plan 2008/09 – 2012/13 identified the “Lack of a systematic staff development programme” as one of the challenges facing the hospital. Without such a plan, training may be carried out in an adhoc manner and may not achieve the expected benefits.

I advised Management to develop a systematic staff training and development programme for staff.

28.13 **Payments to Intern Doctors**

Every year, Ministry of Health through the National Internship Committee (NIC) posts Intern Doctors (i.e. Doctors, Dentists, Pharmacists and Nurses) to various Internship Training Centers for their internship training programme. The Ministry of Health is responsible for their remuneration. In its sitting of 22nd July 2009, NIC allocated 155 interns to Mulago Hospital for the period August 2009 to July 2010, and the Ministry of Health was accordingly requested to make arrangements to process their remuneration.

However, the administration of Mulago hospital paid for the remuneration of the intern doctors using recurrent budget funds of the Hospital and funds from the Hospital Infrastructure account. A total of Shs.369,620,006 was spent for the purpose during the year under review.

This implies that budgeted funds were diverted hence affecting implementation of other planned activities.
I advised the Accounting Officer to liaise with the Ministry of Health to ensure that the intern doctors are paid by the ministry.

28.14 **Payments to Relief Staff  Shs.101,220,252**

The hospital internally recruited relief staff to fill the vacant positions. The initial understanding on recruitment of the Relief Staff was that, their remuneration would be met from user fees under the Private Patients Services (PPS). This was later changed from using PPS funds to GOU hospital recurrent budget funds. However, there was no evidence to show that this was properly budgeted for, implying that funds for other activities were being diverted to cater for the relief staff. It was also established that the recruitment process for the relief staff was not very transparent.

Management explained that the relief staffs were recruited due to the acute staff needs at the hospital.

I advised the Accounting Officer to liaise with Ministry of Public Service and the Health Service Commission to have all the vacant positions appropriately filled.

28.15 **Supply of Drugs and Medical Sundries By NMS**

It has been noted that although the National Medical Stores (NMS) is charged with the responsibility of supplying essential drugs, the following shortcomings were observed regarding the supply of drugs and medical sundries by NMS to Mulago Hospital:-

- Delayed supplies
- Stock outs of drugs
- Inability to supply specialized drugs and medical sundries
- Supply of poor quality drugs
- Lack of reconciliation between funds disbursed to NMS and deliveries made to Mulago Hospital
The above shortcomings could lead to loss of life if not properly addressed. It also puts into question the capacity of NMS to supply the required medicines and medical sundries.

I advised the Accounting Officer to liaise closely with NMS in order to devise means of addressing the current challenges in the implementation of the policy on the procurement of medical drugs.

29.0 BUTABIKA HOSPITAL

29.1 Salary Account

(a) Unexplained adjustments on the Salary Account
A review of the salary bank account revealed that the bank balance was increased by Shs.115,505,300 through adjustments/entries made on 30th November 2009, some of which related to 2008. The details of these adjustments were however not availed for audit.

Although management explained that the adjustments were meant to correct an error made by the bank, details and justification of the adjustment were not availed to me for review. I was therefore not able to confirm the cash balance reported on that account.

I advised Management to always make regular and timely reconciliations to avoid such errors and possible loss of public funds.

(b) Un credited salary release
A review of the bank statement for the salary account for the month of August 2009 revealed that the salary release for the month of August 2009 amounting to Shs.158,914,191 was neither credited to the account nor the Treasury General Account. It was further noted that the salary account was perpetually overdrawn. There is no evidence that appropriate authority was obtained by management to overdraw the account.
Management explained that BOU would pay salaries before receipt of funds on the account, and Treasury would take long to transfer the release to the Salary Account hence leading to an overdrawn Account.

I advised the Accounting Officer to always ensure prompt follow up of all outstanding releases.

29.2 **Lack of Approved Corporate/Strategic Plan**

It was noted that, Butabika Hospital did not have a Strategic Plan in place, during the year under review. A Strategic Plan should spell out the long term plans of the Hospital and also acts as a basis for the evaluation of performance of the entity. Without a strategic Plan, the Hospital may not operate with the requisite guidance needed to achieve its objectives.

Management was advised to expedite the process of coming up with a strategic plan for the Hospital.

Management explained that they were in the final stage of developing the Master and Strategic Plans for the Hospital.

29.3 **Increased Mental Disorder Burden in the Country**

It has been observed that, there is increased mental disorder in the country as shown in the table below:-

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>2009/10</th>
<th>2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MALE</td>
<td>FEMALE</td>
</tr>
<tr>
<td>Patients Examined</td>
<td>167,961</td>
<td>96,774</td>
</tr>
<tr>
<td>New Admissions</td>
<td>1,124</td>
<td>1,024</td>
</tr>
<tr>
<td>Re-Attendance</td>
<td>2,372</td>
<td>1,205</td>
</tr>
<tr>
<td>Discharges</td>
<td>2,903</td>
<td>1,799</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Deaths</td>
<td>56</td>
<td>22</td>
</tr>
</tbody>
</table>

*Source: Butabika Medical Records, 2010*

The situation could be a result of lack of adequate social support for the mentally sick; lack of support initiative in the areas of advocacy for mental health; and weak mental health referral systems in the country.

Management explained that the Hospital through the Support to the Health Sector Strategic Plan Project (SHSSPP) had embarked on constructing regional referral Hospitals. Training in mental health was also being undertaken. They also explained that due to limited resources, the Hospital was unable to carry out regular Support supervision and outreach activities throughout the country.

I advised management to ensure that there is adequate social support for the mentally sick as well as increased support initiative in advocacy for mental health.

29.4 **Non Maintenance of an Asset Register**

It was noted that management did not maintain an Asset Register throughout the year under review. The existing hospital assets have not been recorded anywhere.

This poses a risk of loss of these assets. Additionally, lack of a Register, makes it difficult to verify the existence, ownership, location and current condition of the assets.

I advised the accounting officer to put in place an Assets Register with all necessary details as required under the Treasury Accounting Instructions.

29.5 **Records Management**

It was noted that there was poor record keeping at the hospital. Several records including contract committee records, stores records, medical records (both at
the pharmacy and out patients sections) were not being properly maintained. This increases the risk of loss of funds and hospital assets.

Management attributed this anomaly to acute shortage of staff in records section.

I advised management to ensure that record keeping was streamlined.

29.6 **Staff Establishment**

The hospital continued to have vacant posts against the approved establishment structure. By the end of the year under review, 71 posts were vacant. Failure to have all posts filled negatively impacts on service delivery. It was also observed that, the hospital had six employees whose postings are not on the approved organizational structure. This is irregular.

I advised the Accounting Officer to liaise with the Ministry of Public Service and the Health Service Commission to have the posts filled and also have the right employees posted to the Hospital.

Management explained that they had been forced to recruit staff who were not on the approved structure, to bridge the gaps in critical areas but were following up the matter in order to fill the vacant posts accordingly.

29.7 **Delayed Crediting of Bank Account**

On 30th October, 2009, the Accountant General Issued a Cash Release/Treasury Credit Advice serial number 002608 advising that Shs.3.2 billion had been credited to the Hospital’s bank account number 219.203035.1. It was to cater for development activities for the months of October to December 2009.

It was noted however that the bank account was only credited on 18th January 2010, two and half months after the funds were released. Other releases issued
during the year would be credited to the bank account within two days. Delays in release of funds affect timely implementation of planned activities.

I advised management to always follow up the cash release/Treasury Advice for timely implementation of activities.

30.0 NATIONAL AGRICULTURAL RESEARCH ORGANISATION (NARO)

30.1 Excess Expenditure

The Financial Statements show that NARO received a total of Shs.14,572,476,335 from various donors during the year. This funding was outside the approved NARO budget and was utilized to finance NARO activities ultimately leading to excess expenditure of Shs.5,207,664,188 representing 10% of the approved budget as per the Statement of Appropriation based on services voted by Parliament.

<table>
<thead>
<tr>
<th>Expenditure details</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and services</td>
<td>29,526,739,000</td>
<td>37,544,664,351</td>
<td>(8,017,925,351)</td>
</tr>
<tr>
<td>Employee costs</td>
<td>14,593,148,000</td>
<td>17,081,378,264</td>
<td>(2,488,230,264)</td>
</tr>
<tr>
<td>Consumption of property, plant &amp; equipment (fixed assets)</td>
<td>7,140,993,000</td>
<td>1,786,332,818</td>
<td>5,354,660,182</td>
</tr>
<tr>
<td>Transfer to other government units</td>
<td>1,212,000,000</td>
<td>1,268,168,755</td>
<td>(56,168,755)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52,472,880,000</strong></td>
<td><strong>57,680,544,188</strong></td>
<td><strong>(5,207,664,188)</strong></td>
</tr>
</tbody>
</table>

Contrary to the provisions of the Public Finance and Accountability Act, 2003, no authority was obtained from Parliament in form of supplementary funding to allow the expenditure stand in the Accounts.

Management explained that the over expenditure arose mainly from the funds received from donors, which were not foreseen at the time of budgeting but spent on the activities of the organisation.
I have advised management to have the excess expenditure regularized in accordance with the Public Finance and Accountability Act 2003.

30.2 **Research Quality Standards**

According to Section 24(1) of the NARO Act 2005, the Organization is required to promote delivery of quality and efficient agricultural research services. The task of monitoring and supervision of research is entrusted to the Directorate of Quality Assurance. This involves development of quality standards and respective guidelines for conducting agricultural research and delivery of agricultural research services.

However, we noted during the audit that the directorate has not been able to develop quality standards and guidelines for conducting agricultural research. Lack of quality standards makes the monitoring of research difficult and may result in funding of poor quality research work.

Management explained that the quality standards and guidelines were scheduled to be developed under the Agricultural Technology and Agribusiness Advisory Service Project (ATAAS) which was expected to become operational in the financial year 2010/2011.

I advised management to expedite the process of coming up with the quality standards and guidelines.

30.3 **Register of Agricultural Research**

According to section 8(c) of the National Agricultural Research Organization Act, 2005, the organization is supposed to maintain a central register of all agricultural research and development in the country. However no register was in place. There is a risk of duplication of research subjects by various agricultural researchers in the country due to lack of information.
Management explained that they had planned to develop a digital register in form of a database in the financial year 20010/2011.

I have advised management to expedite this process of coming up with the central register.

30.4 **Establishment of the Agricultural Research Trust Fund (ARTF)**

Section 41 of the National Agriculture Research systems Act, 2005 requires NARO to establish a fund known as the Agricultural Research Trust Fund (ARTF) managed by Council to fund various agricultural research activities in the whole country. According to the Act, the ARTF would consist of monies appropriated by parliament, loans and grants from donors among other sources of funds. The administrator of the fund would be responsible for proposing a formula annually for the distribution of the funds among the Public Agricultural Research Institutes, the Zonal Agricultural Research Institutes and the National and Zonal competitive grant schemes as well as other core research areas.

However, five years after the coming into force of the NARS Act, 2005, the ARTF unit has not been established although the unit (ARTF) was also included in the NARO structure. This has left the function of distribution of research funds without a clear formula.

Management should establish the Agricultural Research Trust Fund as required by the law and have the funds disbursed to the institutes based on a clear formula.

Management explained that they had acquired the trust deed and they were negotiating with Government and donors to provide seed money.

30.5 **Operationalisation of Rwebiitaba ZARDI**

Rwebiitaba Zonal Agricultural Research and Development Institute (ZARDI) is one of the ZARDI’s established under Part 2 of the third schedule of the National
Agricultural Research Act 2005, and in all the organization’s reports, it is mentioned as a semi autonomous institute. However, it has been noted that the ZARDI is operating as a satellite station of the National Crops Resources Research Institute (NACRRI) with all the management and finance functions being controlled at NACRRI.

This undermines the ZARDI’s semi-autonomous status granted by the Act and there is a risk that the Institute may not be able to achieve its objectives.

Management should grant Rwebiitaba ZARDI its semi autonomous status as required by the law.

Management explained that the ZARDI was expected to be operationalised in the financial year 2011/2012.

30.6 **Control of Congress Weed**

According to section 8(a) of the NARO Act, 2005, the organization is supposed to advise the Minister on research, development and technology transfer in the field of agriculture. The NARO council in its 9th ordinary meeting held on 3rd April 2009 was informed by the co-coordinator of GEF/invasive species project that the congress weed a native of Mexico had become a threat in Ethiopia where 3 million hectares were covered with the weed and it had reached Uganda. It is reported that the weed reduces crop and animal production, taints milk and livestock meat, causes severe allergies in humans, skin rush, bronchitis and asthma. Although, NARO informed the Minister responsible for Agriculture, by the time of audit in October, 2010, no action had been taken to address the spread of the weed that is bound to threaten agricultural productivity in the country.

I have advised Management to liaise with the Ministry of Agriculture to address the weed before it becomes a problem to the country.
Management explained that they had carried out a mapping exercise and a rapid response proposal to handle the weed and submitted it to the Ministry of Agriculture. The outcome of this effort is awaited.

30.7 **High Staff Turnover**

An analysis of staff leaving the entity in the last three years showed that forty eight (48) staff resigned their posts as shown below:

<table>
<thead>
<tr>
<th>REASON</th>
<th>2009/10</th>
<th>2008/9</th>
<th>2007/8</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resignation</td>
<td>13</td>
<td>11</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>Retirement</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Non Renewal Of Contract</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Death</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Termination</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>27</strong></td>
<td><strong>27</strong></td>
<td><strong>39</strong></td>
<td></td>
</tr>
</tbody>
</table>

It was noted that a total of 27 staff left the organization during the year. Out of these, 13 resigned before the end of their contracts. It was further noted that the resignations include staff holding senior positions in the organisation, including the Chief Accountant, Director, Quality Assurance, Principal Researcher, Senior Finance Officer, Chief Laboratory Technician and Legal Officer. Although it is good practice to have an exit interview with departing staff, there was no evidence to show that NARO carried out any such interview even in the case of a high ranking officer like the Director of quality assurance.

There is a risk that NARO may not be able to meet its intended objectives if it continues losing key and highly qualified staff at such a rate. Management explained that they had carried out exit meetings but had not recorded the proceedings of the discussions. However, the cause of the high staff turnover was not explained.
I have advised management to investigate the high staff turnover in the organisation and address the causes in order to avoid losing highly qualified and skilled staff.

30.8 **Risk Management**

Best practice requires that an entity establishes a system of identifying potential risks that may prevent the organisation from achieving its Organisational strategic objectives and puts in place a mechanism to minimize the impact of such risks. It was noted during the audit that the organization does not have such a risk management system. There is a risk that the organization may not be able to achieve its objectives.

Management is advised to put in place a comprehensive risk management system that can help them identify risks early enough and address them before they affect the organizations corporate objectives.

30.9 **NALLIRI Development expenditure**

According to section 33(c) of the National Agricultural Research Act, 2005, it is the role of the Institute Management Committee to approve work plans and prepare budgets for a Public Agricultural Research Institute. We however noted that, the third quarter development funds of NALLIRI Tororo amounting to shs.25,101,700 were spent on projects that had not been approved by the committee.

This contravenes the National Agricultural Research Act, 2005 and the practice may be abused leading to loss of funds.

I have advised management to always comply with the law in spending government funds.
30.10 **Work-plans**

(a) **Preparation of work-plans**

Government has undertaken reforms adopting performance and output oriented budgeting based on the notion of vote functions. This requires ministries, agencies and local governments to clearly identify and present their budgets linking resources to activities and outputs/results to facilitate monitoring and accountability. Each sector budget framework paper must clearly indicate the outputs to be delivered under each vote function in terms of quantity, quality, cost, location and timeliness.

Analysis of work plans for the financial year 2009/2010 revealed that, Institutes still had difficulties in capturing and articulating inputs, activities, outputs, performance indicators and outcomes. This will impact on the effectiveness of the intended reforms.

Management explained that the Institutes were systematically being trained in the Output Budgeting Tool (OBT) software and formats for results chain mapping.

Management should ensure that all institute staff are trained on the preparation of output oriented budgeting based on vote functions.

(b) **Planned activities**

It was noted during the audit that some planned activities included in the organizations work plans were not undertaken as shown below:-

- Collection of on-station and on-farm (agronomic and socio-economic) data on performance of commodities such as bananas, cassava, fruits, maize, and oil palm.
- Studies to determine the production performance of Nile Tilapia and African Catfish.
- Laboratory analysis and comparison of nutrient composition of potential local fish feed.
• Performance evaluation of biomass heated natural multi-crop dryer for cassava chips drying in response to climate variability.
• On-station adaptation of de-stoning technology for rice.
• Studies on the economic benefit of fertilizer use.
• Training farmers in various post-harvest technologies in different districts.
• Training farmers on improved cereal production technologies, dairy management etc.
• Production and distribution of IPM guides.

Failure to implement activities according to the approved work-plan hampers the achievement of the entities overall objectives.

I have advised Management to always ensure that all activities are undertaken according to the approved work-plans.

30.11 **Annual Reports**

According to the section 51 of the NARO Act, 2005, the organization is supposed to submit to the Minister, a statement of its activities in the proceeding financial year, one month after the end of each financial year. It was noted that by October, 2010, the entity had not produced the annual report for the financial year 2009/2010. This implies that management did not comply with the requirements of the law. Delay in preparing annual reports may result in gaps not being identified on time for corrective action to be taken in the subsequent years.

Management explained that they were in the process of producing the reports. However, at the time of writing this report in March, 2011, the report had not been produced.
30.12 **Terminal Benefits To Staff**

(a) **Short Term Deposits**

NARO operates a staff benefit scheme aimed at providing retirement benefits to non pensionable staff. After accumulating sufficient funds on the scheme, NARO invests them in order to earn interest. During the year under review, the entity invested a total of shs.3.750 billion in six months short term deposits in Diamond Trust Bank Ltd as shown below:-

<table>
<thead>
<tr>
<th>Date of deposit</th>
<th>Amount deposited (Shs)</th>
<th>Bank</th>
<th>Interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>16/7/2009</td>
<td>550,000,000</td>
<td>Diamond Trust Bank Ltd</td>
<td>13.25</td>
</tr>
<tr>
<td>12/8/2009</td>
<td>1,000,000,000</td>
<td>„</td>
<td>14</td>
</tr>
<tr>
<td>12/8/2009</td>
<td>600,000,000</td>
<td>„</td>
<td>14</td>
</tr>
<tr>
<td>2/10/2009</td>
<td>800,000,000</td>
<td>„</td>
<td>12.5</td>
</tr>
<tr>
<td>22/10/2009</td>
<td>800,000,000</td>
<td>„</td>
<td>11</td>
</tr>
</tbody>
</table>

According to section 46 of the PPDA Act, 2005, all procurements of goods and services should be conducted in a manner that maximizes competition and achieves value for money. It was noted during the audit that only 10 banks out of 22 commercial banks licensed by the Bank of Uganda; were invited to submit their proposals for the short term deposits. However, the criteria used to select the 10 banks that participated in the exercise was not stated.

This means that the other banks may have been unfairly eliminated from the process of competing for the term deposits implying that the entity may have missed out on higher interest rates.

I advised management to ensure that while investing these funds in future, more banks are included in the process to allow wider competition and possible maximum interest offers.
30.13 **Fixed Asset Management**

(a) **Renewal of Lease for Land at Muzingu Estate, Kyagwe**

It was noted that the lease for the above land measuring 100.3 acres, occupied by Mukono ZARDI and belonging to the church of the province of Uganda expired on 28th February 2007. The land comprises of 15 staff houses and six dormitories, four classroom blocks, piggery, dairy, rabbitry, hatchery and poultry units and six hectares of forest reserve. The Institute risks losing the assets on the land in case the lease is not renewed.

Management explained that consultations with church of Uganda and Uganda land commission were on going.

I have advised the Institute to expeditiously follow up the matter and have the lease renewed to avoid losing the assets.

(b) **Incomplete structures at Ikulwe Satellite Station**

It was noted that four structures meant for poultry, piggery, diary and a kitchen at Ikulwe have stagnated at walling level for the last ten years. The structures have been deteriorating because of adverse weather conditions and there is a risk of the structures collapsing and the organization losing the funds that were invested.

Management explained that the structures were handled over to NARO by MAAIF and they were posing a challenge to them.

I have advised management to ensure that the buildings are completed to avoid further deterioration.

(c) **Idle Generators at Ikulwe and Buginyanya Stations**

It was noted during the audit that a 30kv Massey Fergusson generator installed at Ikulwe in 1998 at a cost of Shs.50,000,000 has never been put to use since its installation. The only time the generator was switched on was when it was being
tested by the supplier. The centre manager explained that it was too costly to run the generator and that since the station had acquired hydro power, the generator was not useful.

In addition, the three other generators that were installed at Bulegeni in the 1980’s were not being used and were being kept in an insecure structure. There is a likelihood that the generators in question were procured when they were not needed by the station.

I have advised Management to consider boarding off the generators before the recoverable value deteriorates considerably.

Management explained that they were considering relocating the generators to institutes with capacity to run them.

(d) **Illegal allocation of NARO land to private developers**

The Kitgum district land board allocated 40 acres of the 130 acres of Ngetta Kitgum satellite station (formerly Kitgum District Farm Institute) and the Variety Trial Centre (VTC) to private developers. The land in question was leased to the Ministry of Agriculture in 1966 by the Uganda Land Commission and passed on to NARO as a result of the reforms that took place in the sector in the 1990’s. Although the land was developed by NARO, the Kitgum town council allocated the land to private developers who have since put up structures like fuel stations in between existing NARO structures. There is a risk that all the land may be taken over, including the one occupied by buildings belonging to NARO thus affecting research activities in the region.

Management explained that the land was passed over to NARO by MAAIF and they were processing a land title for it.

I have advised Management to follow up the matter with the Uganda Land Commission and have the land recovered from the encroachers.
30.14 **Internal Audit**

(a) **Audit Committee**
According to Section 8 of the Public Finance and accountability Act, 2003, an Accounting Officer is supposed to establish and maintain an audit committee that among other things, periodically reviews and reports on the overall quality of internal audit services, approves annual and operational plans of the internal audit function.

However, it was noted that NARO does not have an internal audit committee where internal audit findings can be reported and discussed. It was also noted that the entity’s internal audit department reports to the Director General. In addition the internal auditors at the Institutes report to the management committees of those Institutes. The head of internal audit does not have control over internal auditors in the institute which makes it difficult to coordinate the internal audit function in the organization. There is a risk that the quality of internal audit work may not be meeting professional standards. In addition, the entity is not complying with the requirements of the law.

I have advised the Accounting Officer to follow up the matter with the NARO council and have an internal audit committee formed and also streamline the reporting structure of internal auditors at the Institutes.

(b) **Inadequate Staffing for Internal Audit**
We noted during the audit that there are only two internal audit staff at NAROSEC and yet the scope of work is too wide to be undertaken by only two people in such a large organisation.

I have accordingly advised the Accounting Officer to revise the Internal Audit structure and expedite the recruitment process
Management explained that the recruitment of an Audit Assistant was expected to be undertaken in the third quarter of financial year 2010/2011.

(c) **Lack of Separate Budget Line for Internal Audit**

Ministry of Finance introduced separate budget lines for Internal Audit departments in all ministries, departments and Agencies in order to enhance their independence and adequately facilitate their operations. However, in the case of NARO, no funds have been budgeted for and provided under this budget line. It was noted that the department continues to be funded under Finance and Administration, a practice that may compromise their independence and hamper the Internal Audit operations.

It is recommended that the Internal Audit funding be properly budgeted for as a separate budget line like has been implemented under other Government Ministries, Departments and Agencies.

### 31.0 NATIONAL AGRICULTURAL ADVISORY SERVICES (NAADS)

#### 31.1 Participating Partner Contribution

A total of Shs.44,765,694,000 was received during the year under review from the participating partners although their contribution to the Basket of funds expired during the financial year ended 30 June 2009. Although reported as received from Participating Partners, the amounts were not credited on any of the accounts controlled by the project. The funds were said to have been used to offset the cumulative overdraw on the Consolidated Fund brought forward from previous years but no documentation was provided.

In absence of proper documentation, I was unable to verify that the above resources from the Participating Partners were used in accordance with funding guidelines.
Management explained that according to the PAD & MOU of funds from Development Partners were not supposed to flow to NAADS expenditure account but from NBSA to the consolidated fund. By the time the funds were released, the Project had already utilized the funds released by MFPED from the Consolidated Fund Account.

The dates on which the funds were utilized were not provided but it was certain that the funds were not utilized during the financial year ended 30 June 2010.

31.1.1 **Unaccounted for amount of Shs. 1,914,181,093**

Amounts totaling to Shs.1,914,181,093 remitted to the implementing districts remained unaccounted for, five months after the financial year end. There were no returns filled by the district at the secretariat to account for the same. Non-filling of the returns could be a result of the secretariat’s failure to closely monitor the districts.

In absence of the returns I could not confirm whether the funds had been applied for the intended purposes by the districts.

31.1.2 **Withdrawal Of Capital Funds**

An amount of Shs.1,500,000,000 was appropriated to meet the cost of the capital funds for NAADS and was credited to the project account. The same was withdrawn by Ministry of Finance, Planning and Economic Development without accountability being provided. In the absence of the accountability I could not ascertain how the funds were utilized.

31.1.3 **Missing Vouchers**

Examination of accounts revealed that payment records amounting to Shs.52,709,300 were missing from the expenditure files (Voucher No. D175 Shs.37,595,300 and Voucher. No. D176 Shs.15,114,000). The payments were in favor of MS. JMK intended for the limited audit review of the project activities.
Missing documents indicate a weakness in the project’s record keeping function which could lead to loss of vital records.

In the absence of documentation, I could not verify whether the amounts had been regularly withdrawn from the project accounts and applied for the intended purposes.

Management should institute controls like restricted access to records to ensure proper safeguard of the projects accounting documentation.

31.2 **Delay in Submission of Monthly Statutory Returns**

We noted that monthly statutory returns for October 2009 and January 2010 were not submitted on time as per the Uganda Revenue Authority requirements.

Delays in submitting returns could attract penalties from the tax body.

Management should ensure that the payroll monthly returns are submitted to Uganda Revenue Authority on a timely basis.

Management attributed the anomaly to the late releases of second and third quarter funds by MFPED which was beyond their control.

31.3 **Procurement**

31.3.1 **Procurement Plan**

Although NAADS had got a very comprehensive procurement plan, many of the procurements set to be carried out in the accounting year ended 30 June 2010 were never carried out. This was mainly attributed to the slow implementation of the procurement procedures. A number of items meant to be procured in the accounting period such as vehicles, office equipment, farm equipments, and seedlings, had not been procured by the close of the financial year.
Delays in carrying out procurement activities within the specified periods negatively affect the achievement of the intended objectives.

Management should endeavor to stick to the procurement plan if the Organisation objectives are to be achieved.

31.3.2 **Procurement of 14 4 x 4 wheel drive double cabin vehicles**

During the period under review, the Secretariat awarded a contract to UNOPS through the direct contracting procedure to supply fourteen 4 x 4 double cabin pickups at a cost of JPY 40,818,726 to be used by the Districts and the Secretariat. The delivery was meant to be done on the 7 April 2010 which is about seven weeks from the date of the award. However, by the time of the audit, the vehicles had not been delivered (that is 32 weeks from date of award) despite full payment being made to the supplier.

Failure to deliver the vehicles within the contract period could have negatively affected the project operations especially at the district level where most of the implementation activities are done.

Payment guidelines should be followed and suppliers should be made to deliver within the specified time.

31.3.3 **Procurement of a Station Wagon**

The NAADS procurement plan for the FY 2009-2010 had a plan to purchase one Station Wagon Vehicle through the National competitive bidding procedure. A payment was made to the supplier for USD 67,473 equivalent to Shs.130,049,484. The following was noted;

**Contract Management**

It was noted that whereas the project had requested for a station wagon with a V6 engine of manual transmission, the actual vehicle delivered had a V4 engine
and was semi-automatic. In addition, the door side steps, the bulbar, caution plates and alarm had not been fitted as per the specifications.

It was not clear why management went ahead to receive the vehicle that did not meet the desired specifications and could not provide the desired engine performance levels.

Management should always ensure that items procured meet the approved specifications.

Management explained that in future management will always ensure that the procured items meet the approved specifications or in case of changes, such changes would be reviewed in the procurement plan.

31.3.4 **Procurement of items not in the procurement plan**

A review of the procurement documentation revealed that the project paid out JPY 9,076,828 (Shs.204,872,887) for the supply of two station wagons. It was however noted that these had not been provided for in the procurement plan for the period.

Further still the vehicles had not been delivered by the time of audit in October 2010 despite the fact that full payment was made.

Purchase of the vehicles amounts to diversion of projects funds and negatively affected the implementation of other planned activities for the period.

Management should stick to the procurement plan to avoid wastage of Organisation resources.

Management explained that in future management will incorporate all changes in the procurement plan.
31.4 **Vehicle Maintenance**

A review of the vehicle maintenance function revealed that the project was incurring unnecessarily high costs of vehicle repair through the use of direct contracting method. For example, the repair (engine overhaul) of the vehicle registration number UAA 336 cost Shs. 8,495,579 at Mukasa’s garage yet a new engine of the same costs almost half of the amount quoted. Replacement of a seat, fly wheel assy, cover clutch assy for the UAA 339F cost Shs.5,218,120 which we found to be on the higher side.

In addition there was no proper procedure followed in regard to prior technical assessment of repair needs and no prior authorisation was done before vehicles were taken to the garages. This complicates the control over vehicle maintenance costs.

It was further noted that four vehicles had been abandoned and vandalized in the private garages where they were delivered for repair. These are Hilux UG 0929A, Ford UAA 912E, Hilux UAF 283F, Hilux UAA 252F.

Failure to institute proper controls creates the risk of vehicle misuse and incurring unnecessary repair costs.

Clear policy guidelines on the repair of vehicles should be developed and communicated to allow for better fleet management.

31.5 **Recovery of ineligible expenditure**

In line with the directive to recover ineligible expenditure of Shs.44,744,590 incurred in the financial year 2007/8, management paid the amounts from the salaries for contract staff account appropriation.

This would imply that either some of the contract staff missed out on their salaries for the period in an effort to pay back the ineligible expenses incurred by the organisation or the budget for contract staff was inflated to allow for easy recovery of the same.
Management should always adhere to the budgeting system to avoid misuse of organization funds. Management should further ensure that all expenditure incurred by the organization is always eligible and is properly approved.

31.6 **Training of Peri-urban Farming**

An amount of Shs.15,360,000 was paid as honorarium to core team members who participated in training of beneficiaries in aspects of peri-urban farming did not have any acknowledgement in terms of funds receipted by the payees and signatures. Justification was also not sufficiently provided by NAADS Secretariat why training was not conducted by its staff.

In absence of the acknowledgements we were unable to verify the expenditure of Shs.15,360,000.

All funds paid out by the Organisation should always be signed for in acknowledgement of receipt. Justification should always be provided for use of outsourced resources rather than in-house resources.

31.7 **Districts and Sub Counties**

(a) **Limitation of Scope**

Audit could not access the financial documents for Bundibugyo District, Fort Portal Municipality, East Division, Peta Sub Country in Tororo District and Lalachat in Nakapiripirit. Thus, I could not verify the expenditure amounting to Shs.400,965,500 transferred to the four entities. Details are as below:-

<table>
<thead>
<tr>
<th>Entity</th>
<th>Amount Transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lalachat Sub-county</td>
<td>119,050,000</td>
</tr>
<tr>
<td>Peta Sub-County</td>
<td>103,181,000</td>
</tr>
<tr>
<td>Bundibugyo District</td>
<td>87,204,500</td>
</tr>
<tr>
<td>Fort Portal Municipality East Division</td>
<td>91,530,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>400,965,500</strong></td>
</tr>
</tbody>
</table>
No satisfactory explanation was provided by Management.

(b) **Inadequately Supported Expenditure**

Expenditure totalling to Shs.795,612,906 was inadequately supported at the district and sub-country levels as shown below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Districts</td>
<td>244,624,650</td>
</tr>
<tr>
<td>Sub-Counties</td>
<td>550,988,256</td>
</tr>
<tr>
<td>Total</td>
<td>795,612,906</td>
</tr>
</tbody>
</table>

In absence of the supporting documentation, I could not confirm whether the funds had been applied for the intended purposes.

(c) **Co-funding obligation**

Districts, other local authorities and farmers groups under co-funded the programme by the following amounts:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Districts</td>
<td>65,299,753</td>
</tr>
<tr>
<td>Sub-counties</td>
<td>1,174,876 509</td>
</tr>
<tr>
<td>Farmers</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Non compliance with the co-funding requirements contravenes the MOU and also affects the effective implementation of the Programmes activities for the period.

The Programme management should ensure that the co-funding obligations are adhered to regularly.
(d) **Missing Payment Vouchers**

Payment vouchers amounting to Shs.26,913,000 were missing from the records of various sub-counties by the time of audit. Missing vouchers reflect weaknesses in the record keeping function of the Project.

In the absence of the documentation, I could not verify whether the funds were applied for the intended purposes.

In future, all payment vouchers and supporting documents should be properly filed and secured.

(e) **Preparation of Financial Statements**

We noted that consolidated financial statements had not been prepared by the Secretariat at the time of audit. When the consolidated financial statements were later prepared, they excluded seven districts that had not submitted their returns. These were: Moroto, Maracha, Amuru, Kyenjojo, Kayunga, Kaabong, and Ssembabule.

This led to the delay in completion of the audit.

As a funding requirement, consolidated financial statements are supposed to be prepared for each financial year.

Financial statements should always be consolidated on annual basis before commencement of the audit.

(f) **Co-funding not Receipted**

Examination of the accounts of Tororo NAADS project revealed that co-funding of Shs.13,023,300 was not receipted contrary to the best financial management
practices that require issuance of receipts for all incomes. In addition there were no posting references in the cash book. Failure to issue receipts makes the verification of income from the above sources difficult.

Management should ensure that receipts are issued in respect of all income received.

Management regretted this omission and indicated that the correction will be made and a receipt issued.

(g) **Discrepancies in the amounts co-funded**

A review of the accounts of Kamwenge District revealed a variation between the financial report and the cash book. Whereas the latter showed a co funding figure of Shs.1,200,000, the former reflected Shs.4,785,650 leading to a variation of Shs.3,585,650. The authenticity of the report for the district could not be ascertained in the circumstance.

Although management explained that it was money that individuals had failed to account for and was refunded but not district contribution, no evidence was provided in support.

(h) **Borrowing of Project Funds**

Examination of accounts of Kabale district NAADS project revealed that an amount of Shs.10,000,000 had been borrowed by the former NAADS coordinator to fund other district activities and had not been refunded by the time of audit report.

Borrowing of the project funds delays the implementation of the planned project activities which affects the achievement of the intended objectives for the period.
Management should avoid the practice of lending project funds and ensure that the funds borrowed are refunded to the project account.

(i) **Variations between amounts released by Secretariat and the Districts**

It was noted that there were variations between the amounts as per the release form at the secretariat and the actual amounts received by the districts.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaliro (3rd release)</td>
<td>366,341,000</td>
<td>380,803,000</td>
<td>14,462,000</td>
</tr>
<tr>
<td>Kamuli (3rd release)</td>
<td>1,496,932,000</td>
<td>1,074,332,000</td>
<td>422,600,000</td>
</tr>
<tr>
<td>Mukono</td>
<td>1,276,640,000</td>
<td>1,577,198,000</td>
<td>300,552,000</td>
</tr>
</tbody>
</table>

The anomaly could have arisen out of management’s failure to reconcile the statements regularly.

The variations make the authenticity of the financial reports suspect.

The District NAADS Coordinator and Secretariat should liaise in order to clear the variances.

(j) **Remittance of Statutory deductions**

Examination of the district accounts revealed that where as districts effected the statutory deductions of PAYE and withholding taxes and the National Social Security Fund (NSSF) contributions, some districts did not remit them fully or they were not supported by the acknowledgement receipts from the Uganda revenue authority. This was contrary to the requirement of the income tax act 1997 which stipulates that such deductions should be remitted by the 15th day of the month following that when the payments were made. The anomalies were noted in the districts of Adjumani, Amuru, Apac, Arua, Kamwenge, Lira, Mubende, Oyam, Amolatar, Bududa, Dokolo,, Luwero, Nakasongola and Pader.
Failure to remit the deductions could attract penalties from the statutory bodies of Uganda Revenue Authority and the NSSF.

Management should make efforts to remit the tax obligations without delay and in future transactions adhere to the income tax act 1997.

(k) Unbudgeted Expenditure

During the period under review, an analysis of the individual budget lines revealed overruns for the year amounting to Shs.27,314,035. This was observed in the three districts of Katakwi, Kaberamaido and Moroto. There was no evidence of approval for the budget overruns.

<table>
<thead>
<tr>
<th>District</th>
<th>Budget overrun Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katakwi</td>
<td>7,892,734</td>
</tr>
<tr>
<td>Kaberamaido</td>
<td>2,212,525</td>
</tr>
<tr>
<td>Moroto</td>
<td>17,208,776</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(27,314,035)</strong></td>
</tr>
</tbody>
</table>

The Shs.27,314,035 incurred was considered ineligible expenditure as its deviates from the budget provisions and the Memorandum of Understanding. Such practice stagnates the execution of some programme components when funds are diverted to other programmes.

NAADS management should always ensure that districts always spend within the approved budget limits.

(l) Non-stamping of payment documents with "PAID" Stamp

It was noted that a total of nine districts had not canceled the payment documents with the PAID stamp contrary to the requirements of the project financial management manual. The anomaly was noted in the districts of; Jinja, Gulu, Kayunga, Kaliro, Manafwa, Moroto, Nakasongola, Soroti and Yumbe.
Failure to invalidate the payment documents could lead to the duplication of the payments thus loss of project funds.

Management should ensure that all payment vouchers and supporting documents are cancelled with a “PAID” stamp on the completion of the payment process.

(m) **Lack of maintenance of Cheque registers**

Section 3.3 of the NAADS Financial Management Manual requires that a cheque register to be maintained. On the contrary it was noted that the districts of Amolatar and Arua were not maintaining a cheque registers.

Failure to maintain cheque registers makes it difficult to follow up use of cheque leaves, and their movement.

Management should ensure that a cheque register is maintained and properly recorded at all the districts disbursing NAADS funds.

Management acknowledged the anomaly and indicated that the registers would be put in place and maintained.

(n) **Lack of Quarterly Internal Audit reviews**

Section 7.3 of the NAADS Implementation Guidelines requires internal audits to be carried out and reports produced regularly. On the contrary it was noted that in 10 districts and 57 sub-counties the reviews were either not being carried out or they were irregularly being done. This was noted in the districts of; Abim, Amuria, Arua, Bududa, Koboko, Kotido, Manafwa, Pader, Sironko and Yumbe

In addition there was no evidence of the internal audit verification of the vouchers at the sub-county level.
Failure to undertake internal reviews could impair the control and monitoring functions as well as checks and balances in the systems.

Management should ensure that internal audits are carried out and reports produced as stipulated by the NAADS Implementation Guidelines.

(o) **Loss of assets**

Inspections at the sub counties revealed that three motorcycles worth Shs.11,249,006 had been lost. These belonged to the Kamwenge Town Council, Butayunga sub-county in Mityana and Rukoki sub-county in Kasese. By the time of the audit none had been recovered.

Loss of assets reflects weaknesses in the asset management function at that level.

Management should carry out investigations to establish the circumstances leading to the losses.

Management indicated that it was in the process of following up the compensations by the insurers for the motorcycle that was insured.

(p) **Management of Assets**

Inspections at the sub-counties revealed anomalies in the management of project assets. It was noted that various sub counties did not maintain fixed assets registers or they were inadequately being maintained. In addition it was noted that a number of assets had not been engraved.

Failure to maintain asset register and engraving of the assets make the tracking and monitoring difficult.
Management should ensure that all programme assets are engraved by the programme initials or names and a unique number. Maintenance of asset registers should be enforced.

(q) **Suspected fraud and other irregularities**

Examination of accounts at the sub-counties revealed that expenditures amounting to Shs.20,219,800 was paid to officers under doubtful circumstances in Pader and Pallisa districts. These included unjustified allowances, forgeries and suspect activities.

(r) **Uncommitted balances**

Sub-counties had unspent balances amounting to Shs.111,366,877 at the end of the period but these had not been transferred to the secretariat contrary to the financial management manual. Details as below:-

<table>
<thead>
<tr>
<th>District</th>
<th>Sub county</th>
<th>Uncommitted Amount (Shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kabale</td>
<td>Kyanamira</td>
<td>1,307,725</td>
</tr>
<tr>
<td>Kabarole</td>
<td>Kasenda</td>
<td>16,762,379</td>
</tr>
<tr>
<td>Kabarole</td>
<td>Kateebwa</td>
<td>556,941</td>
</tr>
<tr>
<td>Kabarole</td>
<td>Kisomoro</td>
<td>41,342,379</td>
</tr>
<tr>
<td>Kabarole</td>
<td>West Division</td>
<td>26,037,811</td>
</tr>
<tr>
<td>Kamwenge</td>
<td>Kabambiro</td>
<td>4,218,133</td>
</tr>
<tr>
<td>Kamwenge</td>
<td>Nkoma</td>
<td>3,503,361</td>
</tr>
<tr>
<td>Kanungu</td>
<td>Kanungu T/C</td>
<td>2,186,670</td>
</tr>
<tr>
<td>Ntungamo</td>
<td>Itojo</td>
<td>1,567,674</td>
</tr>
<tr>
<td>Ntungamo</td>
<td>Ngoma</td>
<td>2,480,900</td>
</tr>
<tr>
<td>Ntungamo</td>
<td>Ntungamo S/C</td>
<td>7,409,377</td>
</tr>
<tr>
<td>Rukungiri</td>
<td>Nyakishenyi</td>
<td>3,993,527</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>111,366,877</strong></td>
</tr>
</tbody>
</table>
Management should ensure that budget and released funds are used for the programme activities planned in the respective Sub-County for the period.

32.0 **UGANDA NATIONAL ROADS AUTHORITY**

32.1 **Over expenditure**

The Statement of Appropriation Account, (Based on Services Voted by Parliament) shows that UNRA incurred over expenditure of shs.101,693,207,107 above the appropriated amount on the non-wage item. This was attributed to the balance of unutilised funds for 2008/09 amounting to shs.225.979 billion that was retained and utilised in 2009/10.

Although the Ministry of Finance allowed the Authority to retain the funds, this was not presented to Parliament for supplementary appropriation.

My recommendation in the previous audit report to follow up the matter and seek a supplementary approval from Parliament was not adhered to.

32.2 **Limitations of Pastel and IFMS in accounting requirements of UNRA**

UNRA uses the Pastel Partner 2007 version for recording its financial transactions and reporting. This system is used parallel to the Government’s Integrated Financial Management System (IFMS). The continued use of the pastel accounting systems is attributed to the fact that UNRA receives funding from multiple sources that are not currently possible to be accommodated on the IFMS.

Review of the Pastel system revealed the following matters:-
  
  - The System has a limitation on the number of digits that that can be posted. For instance entering data is limited to 10 digits and any transaction of more than 10 digits cannot be captured. It requires the accountants to first split the figures into small amounts with less than ten digits.
The System was inherited from the Road Agency Formation Unit (RAFU) whose level of activity was only limited to development projects and the reporting responsibility for GOU activities was with the Ministry of Works and Transport then. The System has not undergone any further customization to accommodate the GoU reporting requirements.

The System is not able to accommodate the GoU chart of accounts of 39 characters and the coding system used cannot be easily linked to the standard GoU codes under which UNRA is required to report.

It was noted that the System is not transaction based. The transactions have to be posted manually following completion of manual processes outside the system. On many occasions adjustments have not been posted and this causes inaccuracies in the reports, for example unposted transactions leading to underestimation of balances.

All IFMS transactions (with all required reports) are manually uploaded to the Pastel System with different coding and retranslated to the standard reports. This does not only make it difficult to drill down on transactions but may also lead to manipulation of the reported balances.

Postings and entries on the Pastel System do not require different approval levels based on the hierarchy of the organization. For example an entry requires one level of authorization for the posting to be completed. This differs from the level of authorisation and responsibility that is inbuilt in the IFMS.

The password strength was also noted to be weak as some were noted to be of a few characters and not set to expire.

The system does not allow drilldowns of the consolidated figures in the trial balance. This was attributed to non procurement of the “Business Intelligence Centre”, the unit responsible for drill down processes.

It was noted that although Government entities are encouraged to adopt accrual basis of accounting, there is no clear policy on this by the Accountant General. UNRA prepares its Financial Statements in full compliance with the accrual principles but is forced to adjust them back to the “modified” cash
basis. This has caused the entities that have adopted the accrual method to make unconventional adjustments that are at times difficult to justify.

- Although the Oracle software that is used in the IFMS has full accrual principles, the entities on full accrual have not been catered for as the system was fully customized to cater for only “Modified” cash contrary to the IPSAS requirements. Efforts by UNRA to have their concerns addressed by the Accountant General’s Office have been futile. This is likely to frustrate those entities that have fully complied with the IPSAS requirements.
- The entire donor funding for road projects and all funds from the Uganda Road Fund for road maintenance representing more than 60% of UNRA’s funding is received outside the IFMS because IFMS is limited to GoU funding received directly from Treasury (Treasury releases). In its current customized form, it is not possible for UNRA to fully adopt IFMS hence the continued use of Pastel with its limitations.

Continuing to use the two systems in parallel does not only lead to duplication of resources but also complicates the process of financial reporting.

The Accounting Officer explained that UNRA is to upgrade to the newer version of Pastel called Pastel Evolution next financial year to address the short comings.

I advised UNRA management to liaise with the Accountant General and have the accounting packages harmonised, taking into account the different sources of financing. The possibility of UNRA being set up as a separate book of accounts under the IFMS could be explored.

32.3 **Lack of a Strategic Plan**

It is good practice for an Entity to have a strategic plan outlining the entity’s strategic objectives to be achieved in a specified time frame. UNRA does not have a documented strategic plan to guide it towards achieving its mandate in the medium and long term other than the annual 2009/2010 business plan which acts as a work plan and the annual Ministerial Policy Statement which only
focuses on short term planning. It is not clear how UNRA intends to achieve its mandated roles following its formation two years ago. There is a risk that UNRA may lose direction and not be able to attain its objectives.

It was noted that UNRA has a well established IT department that oversees the IT activities/functions, including Pastel Accounting System, IFMS (GOU accounting system), automated security systems (fire detection systems, biometric accesses), document management system, etc and continues to have other heavy investments in IT.

Best practice (CobiT) requires establishment of an IT steering Committee comprised of representative members of senior management to oversee the IT department/functions. However, it was observed that UNRA has not established this steering committee. There is a risk that the investments in IT may not be properly aligned to the business objectives of UNRA leading to waste of resources.

Management explained that they are in the process of developing the strategic plan but this has been hampered by the delayed approval by cabinet of the National Transport Development Program Phase Three (RSDP3) where the frameworks are the major pillars that underpin UNRA’s strategic plan.

32.4 **Understaffing at UNRA**

Review of the UNRA staffing position revealed that a number of posts in the approved structure are still vacant. These include key positions like, Material specialist, Highway specialist, Bridges specialist, Assistant supplies officer, Road overseer, Plant operators, and Project engineer which are regarded to be critical to the operations of UNRA.

Other notable areas affected by understaffing include:-

- Project management, where it was observed that each Project manager is in charge of a minimum of eight to ten projects. This number is very high
considering the project management monitoring and reporting requirements for each of the projects under each manager.

- The procurement and Disposal unit (PDU) is manned by three staff members including the Head PDU. These are not adequate to handle all the procurement requirements of UNRA. This might lead to delays in the procurement process and hence delays in service delivery.

- Staffing gaps exist at the UNRA Stations where the approved staffing positions like road inspectors, Plant operators; etc is below the level of activity at the stations. With increased road maintenance works at the UNRA stations, the number of road inspectors and overseers is still glaringly low with one inspector supervising between 400km and 700km. This workload is considered to be too high for effective routine supervision.

- At the Ferry Workshop, Staffing details indicated that of the 13 staff currently working at the workshop only 5 are UNRA employees. The rest are either casual workers, trainees or employed by the Ministry of Works. The Chief Mechanical Engineer has threatened to withdraw the Ministry employees if UNRA does employ their own, within a reasonable period of time.

Management was advised to review the structure and staffing position in order to enhance the performance of the Authority.

Management explained that the staff strength was in the process of being reviewed and the restructuring proposals had been submitted to the UNRA Board for approval including an increase in the budget allocation for the wage bill. They further explained that the Procurement department was being elevated to a directorate level with a structure that will include Procurement Engineers to match the unique procurement requirements of UNRA. I urged them to expedite the process.
Non Transfer of Assets

The Uganda National Roads Authority Act, 2006 section 39 provides that the Minister may, by statutory instrument, make regulations for the transfer to the Authority of the ownership or possession of assets belonging to the Government which, by virtue of this Act and in his opinion, are necessary for the performance of the functions of the Authority and the Authority shall have all the rights and be subject to all the liabilities attaching to those Assets. However, it was noted that although assets were taken over and are being used by UNRA especially at the stations these assets have never been transferred to the Authority by way of a statutory instrument as required by the Act.

This is contrary to the law and implies that the Authority is utilizing the assets irregularly. With the lapse of time, there is likelihood of loss of these assets and it may be difficult to monitor their usage.

This matter was also raised in my previous audit report but has not been addressed.

I have advised management to liaise with the Ministry of works to expedite the process of transferring ownership of all the assets to the Authority as required by the Act.

Untaxed Salary Arrears

Section 20(1) of the Income Tax Act, defines employment income as any income derived by an employee from any employment”, and this includes salary arrears. Contrary to this provision, payments in respect of salary arrears to staff amounting to shs.472,479,916 were not subjected to PAYE deductions. This is irregular and UNRA is likely to be penalized by Uganda Revenue Authority for the omission.
Management attributed these anomalies to the shift from their own system to the Straight Through Processing (STP) system and failure by the Uganda Computer Services to effect the deductions, as instructed.

I have advised management to follow up the matter with the Uganda Computer services and have the deductions effected to avoid possible penalties from the tax authority.

32.7 **Transfer of funds to a Closed Bank Account**

A total of Shs.70,000,000 was credited to the Ntungamo-Kagamba account number 2160215027.1 during the year under review, whereas this bank account had been closed earlier and all the balances transferred to the Transport corridor route account. The funds were transferred by the Ministry of Works and Transport to cater for works on Nyakyera-Ngomba Road and had not been utilized for any activity and were still lying idle on the account by the time of audit.

Although these funds were disclosed in the Financial Statements of UNRA, the transfer of funds to a closed Bank account indicates that the closure was not adequately effected by Bank of Uganda. There is a risk that such bank accounts may be used to misappropriate funds.

I have advised the Accounting Officer to follow up the matter with the Bank of Uganda and ensure that the account in question is completely deactivated, and the amount remitted back to ministry of works.

32.8 **Procurement of 30 Road Maintenance Supervision Vehicles**

It was noted that during the procurement of 30 road maintenance supervision vehicles, the evaluation of the bids was done 3 times by different evaluation Committees and also subjected to two administrative reviews by both UNRA and PPDA, each arriving at different conclusions and recommendations for the best evaluated bidder. The point of contention was whether a deviation by the bidder from the specifications was material or not. The award was eventually made
following a waiver of some of the requirements in the solicitation document because they were not considered material.

Management attributed this to the subjective nature of PPDA regulation 183 that is open to different interpretations.

I advised management to liaise with PPDA with a view of obtaining additional guidance on the criteria to be used to determine whether a deviation is material or not.

32.9 **Procurement for Backlog Road Maintenance Programme (Packages1-6)**

The procurement file for Backlog Maintenance Programme shows that the works procurement notice was issued out in the New Vision newspaper of 24th September, 2007. According to the advert, the procurement method to be used was local open tendering and the practical guide to contract procedures under the 9th EDF was to be used in the process.

However, contradictions were noted in the EDF guide, for instance section 4.3.9.4 requires that bidders who do not comply with the tender dossier would be rejected, but section 2.4.12 provides for the cancellation of a procurement followed by the negotiations for cases where no bidder is administratively compliant.

These contradictions led to award of tender to Ms Stirling/Spencon JV for packages 4 and 6 when the firms had not passed the administrative compliance. Under the PPDA this is considered to be irregular as it can result into awarding of the contract to a firm lacking capacity.

I have advised the UNRA management to harmonise the position of the EDF guide with the best practices in procurement.
32.10 **Delays in Completion of Works**
Examination of payment records revealed slow performance in execution of works by contractors on a number of roads. Generally the progress of work was behind schedule as the estimated time of completion had been exceeded. Delays in the completion of works may be a result of weaknesses in contract management procedures and lead to extra costs. Delays also deny the public timely enjoyment of the facilities.

Management attributed this to weaknesses in the Local construction industry and explained that where delays have been experienced contract management provisions had been enforced and liquidated damages charged on some of the firms.

I have recommended to management to reclassify construction firms according to their size and capacity. Management should also continue to sensitise Contractors about the importance of completing road works in the stipulated contractual time lines as charging liquidated damages may not solve the problem.

32.11 **Nugatory Expenditure**
A sum of Shs.39,527,976 was paid to a local construction firm as interest accruing due to delayed payments arising out of the emergency repairs on Kakyanga and Lambu Landing sites. The interest payments are considered nugatory as they could have been avoided if management had made arrangements to settle the interim payment certificates in time.

Management explained that the delays to settle the outstanding amounts arose from Ministry of Works before the contract was assigned to UNRA and attributed the problem to late release of funds to settle outstanding claims by the contractors.
I have advised the Accounting Officer to liaise with Ministry of Finance and ensure that when funds are being released, contracts with outstanding claims should take priority in order to avoid accumulation and payment of interest on such claims.

I have also recommended that where funding has been identified and contracts signed, such funding should be protected to ensure its availability as and when contractors’ certificates fall due.

32.12 **Irregular Rent Payments**

At the time of audit, a total of Shs.46,530,000 had been paid since February 2007 as rent and relocation costs for one of the injuriously affected persons along the Kampala Northern Bypass.

UNRA pays the rent expenses at a rate of Shs.1,000,000 per month, as alternative accommodation following the flooding of the premises caused by the construction of Kampala Northern Bypass (KNBP) although the affected premises are located outside the KNBP road reserve in Namungoona suburb. In view of the fact that the area is likely to be permanently affected, UNRA should have valued the properties affected with the view of compensation other than provide rented accommodation. It was also noted that the house appears to be located in a wetland. However, there is no evidence that the construction had been cleared by NEMA.

Management explained that efforts have been made to have the valuation of the property done but the Government Valuer had rejected the request, citing selective treatment as there were other persons who were equally affected but their cases had not being considered.

I recommended to management to find a permanent solution to this problem because selective consideration and payment of rent for one individual among the many other affected persons is irregular.
32.13 **Compensation of Injuriously Affected Properties on KNBP**

A total of Shs.184,448,500 was paid to four beneficiaries as compensation of injuriously affected properties on Kampala Northern Bypass (KNBP). Following the compensation, the property owners did not transfer ownership of the titles to the land to UNRA. There is a risk that they could still continue to claim ownership of the same land.

Management explained that they have engaged a consultant to subdivide all the titles affected by the KNBP, expropriate the land and produce a unitary title for the whole road.

I recommend that this process be expedited to have the title for the road properly delineated from the many other titles that were compensated.

32.14 **Irregular reallocations**

A total of Shs 18,986,670,584 was transferred from the Transport Corridor Project Roads account which is a development account to cater for recurrent expenditure (Shs.3,986,670,584 to Salaries and Shs.15,000,000,000 to maintenance).

Such huge transfers from the Development activities to recurrent activities represents a change in policy and is contrary to Section 39(b), of the Public Finance and Accountability Regulations, which states that, “the virement/reallocation should not be so large or important so as to represent a change in policy”.

The practice causes budget distortions and leads to realignment of the planned outputs.

It is recommended that any future reallocations/virement should be made in accordance with the law.
32.15 **Weaknesses in Supervision by Consultants**

A consultant was engaged by UNRA for the supervision of the urgent repairs of Mbale Town roads. However, it was noted that out of the fourteen (14) professional and technical personnel whose details were stated in the signed contract, none reported for the works. The four who had reported were not those indicated in the contract.

Such a change in personnel amounts to breach of contract and could have impacted on the supervision services that were undertaken by the firm.

It is recommended that any change in the deployment of the consultant’s personnel should be communicated to and approved by UNRA as required by the procurement laws.

32.16 **Disaster Recovery Plan (DRP)**

UNRA set up a Disaster Recovery Plan (DRP) in order to allow for continuity of business in case of any eventualities. A review of the Disaster Recovery Plan, which has been set up at one of UNRA Stations was done by Internal Audit and the following matters were observed:-

- The IT Policy requires testing the Disaster Recovery Plan once a year; however this testing had not been done because the DRP server had not yet been set up. The purpose of setting a DRP in such circumstances is negated. There is a risk of not being able to recover from a disaster in case it occurred now.

It was also noted that other physical controls such as the air conditioning, fire extinguishers, access control door & CCTV camera were all not yet installed.
• Section 8.1.4 of the Uganda National Roads Authority’s DRP stipulates that the backups should be tested for recoverability quarterly and the restoration logs thereof filed. However, the review revealed that quarterly recoverability tests were not being done. Instead, tests are done after back up is made, before tapes are taken off site. The MIS staff explained that recoverability is tested whenever there is need by staff to recover lost information. This is irregular as the data on the back tapes may also be corrupted at a time a disaster happens.

The testing for recoverability of data stored on the backups should be done as stipulated by the DRP policy.

• A review of software loaded on some of the UNRA IT equipments revealed that some computers especially in the Planning Directorate had pirated software installed on them without prior consultation and authorisation from the MIS Department. The draft MIS policies and procedures prohibit employees from uploading, downloading or otherwise transmitting commercial software or copyrighted material in violation of its copyright onto UNRA computers. Examples of the pirated software include “Map info” professional and Autodesk in the planning directorate. This practice is irregular and may attract penalties from the authors of such software.

It is recommended that such software, if required for operations of UNRA, it should be procured through rightful means.

• It was noted that the MIS department is not involved in the acquisition and installation of software for certain Directorates. For example, contracts for purchase of “DTIMS and AUTOCAD Civil 3D & 3Ds MAX software for planning the Directorate had been signed but the MIS department was not involved in these procurements in order to provide technical guidance and plan for continuity when the softwares are put into use.
The MIS department should always be involved in the procurement of IT software and hardware to allow for better Management of IT Inventory and harmonize the procurement of IT Assets.

32.17 **Technical (Engineering Audit) of Road Contracts Implemented by UNRA**

In addition to the financial audit, a technical (engineering) audit was carried out on a sample of 24 contracts for road projects (Construction and Maintenance) that are being executed by Uganda National Roads Authority (UNRA). The specific objectives of the engineering audit were:

- To evaluate the existence and effectiveness of internal controls, which are needed for sound management and engineering principles and practices;
- To obtain reasonable assurance, that the constructed and rehabilitated/maintained roads, were actually done with reasonable quality in accordance with specifications, sound engineering principles, practice and technical management policies;
- To report on the findings.

A separate report containing the detailed findings was prepared and forms an integral part of this report and my annual report to Parliament. Below is the summary of the key findings and observations from this report.

(a) **Adoption of Standard Documents**

The issue of UNRA not adopting standard documents for all the projects was raised during the audit of financial year 2008/09. Audit work carried out in 2010 revealed improvement although there are still cases of non compliance.

UNRA has implemented use of standard documents except where funding arrangements with external agencies stipulate otherwise.

Management explained that PPDA standard documents are used for maintenance projects funded by Government of Uganda while the modified FIDIC has been
adopted for other Government of Uganda and World Bank funded projects under procurement. They also stated that the 2005 MOWT Standard Specifications for Road and Bridge Works had been adopted in all recent designs, however, for projects under European Development Fund (EDF) 9, the standard documents stipulated in the funding agreements were used. For large contracts with GOU funding, the modified FIDIC of conditions of contract have been adopted with the clearance of PPDA.

I have recommended to the UNRA management to ensure continuous improvement in this area and explore the possibility of having harmonised standards for the country instead of using different standards.

(b) **UNRA’s In-house Capacity in Design, Preparation of Tender Documents and Works Supervision**

UNRA is occasionally using its staff in designing, preparation of tender documents and supervision of works for maintenance projects. Weaknesses and shortfalls noted during the 2009 audit have been addressed to a certain extent but more improvements are necessary in the areas of documentation (especially lack of necessary drawings), and supervision (quality control, certification of works done and reporting). This is likely to hamper the achievement of UNRA objectives.

Management explained that improvements in this area had been made and that PDU capacity has been enhanced by the recruitment of procurement specialists. They are also proposing to elevate the Unit to a Directorate level commensurate with the increased complexity and portfolio of procurements and projects. UNRA is also undertaking staff capacity building to improve staff skills in carrying out their respective procurement roles, in the origination of procurements, evaluation, contract documentation and administration of contracts.
UNRA is also recruiting staff to fill up the vacant positions in its technical departments, and is currently using Technical Assistance to provide quality assurance in the procurement of large contracts.

(c) **Contracts Management by UNRA**

There are many projects going on at the same time creating a contract management problem to UNRA in terms of effective monitoring. UNRA staff at HQs and at the upcountry stations are stretched with increased workload due to increased road network.

It was noted that in addition to the normal duties assigned, some managers are involved in other activities such as contract committees, procurement evaluations that consume part of their time on top of managing up to 8 or more projects assigned to each manager.

In addition, the UNRA stations have a confined staff structure with few engineers, supervisors and road inspectors who are not able to supervise many road projects at the same time. Weaknesses in the current private sector contracting industry were also highlighted as a challenge to UNRA.

Management explained that UNRA is recruiting more technical staff and is also using outsourcing as an alternative mode of supervision of contracts. I have advised that the size of the consultancy contract packages for supervision of maintenance contracts needs to be reviewed to ensure effective supervision by consultants.

Furthermore in absence of sufficient in-house capability, UNRA should consider outsourcing more the design and supervision services and also follow up more closely the performance of the consultants. Where consultants are not performing to expectations, they should not be considered for other services.
(d) **Price Adjustments (Compensation for Variation of Prices)**

It is a practice in the road construction industry for contractors to be compensated for price variations arising from inflation. Review of the computations for Variation of Price arising out of the provisions in the contracts relating to price adjustments revealed the following matters:-

- It was noted that different price adjustment formulae are used for different contracts depending on the financiers of the different projects. This may result into varying compensations of the contracts that are not in harmony with the country’s inflation trends.

- It was noted that substantial amounts of money are being paid to contractors in form of compensation for change of prices of basic materials and labour under the ‘Price Adjustment’ clause. The amounts paid during the year under review ranged from 10.5% to more than 60% of the value of works done. From our analysis, we noted errors in the computations of the VOPs. For example, at the time of audit, a total of Shs.91,201,077,198, had been paid in respect of VOPs on the projects from which errors estimated at Shs.27,681,511,156 were made as shown below:-

<table>
<thead>
<tr>
<th>Road Project</th>
<th>Amount of VoP paid (Shs.)</th>
<th>Amount paid in Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kabale-Kisoro</td>
<td>31,961,430,573</td>
<td>9,790,330,335</td>
</tr>
<tr>
<td>Soroti-Dokolo</td>
<td>21,022,406,969</td>
<td>3,217,890,994</td>
</tr>
<tr>
<td>Dokolo-Lira</td>
<td>24,049,356,924</td>
<td>3,936,409,597</td>
</tr>
<tr>
<td>Kampala-Gayaza-Zirobwe</td>
<td>5,364,523,725</td>
<td>1,933,581,203</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>82,397,718,191</strong></td>
<td><strong>18,878,212,129</strong></td>
</tr>
<tr>
<td>BRMP 1</td>
<td>5,450,603,523</td>
<td>5,450,603,524</td>
</tr>
<tr>
<td>BRMP 4</td>
<td>1,747,156,179</td>
<td>1,747,156,179</td>
</tr>
<tr>
<td>BRMP 6</td>
<td>1,605,599,304</td>
<td>1,605,599,304</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>8,803,359,007</strong></td>
<td><strong>8,803,359,007</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>91,201,077,198</strong></td>
<td><strong>27,681,571,136</strong></td>
</tr>
</tbody>
</table>
While UNRA’s ‘policy’ is to include a ‘Price Adjustment’ clause in contracts that are for durations beyond eighteen (18) months, cases were noted where this was not followed, for example, contracts for backlog maintenance projects, packages 1, 4 and 6 where VOPs were introduced before the prescribed period citing reasons relating to delay to award the contracts and resulting into extra payments estimated at Shs.8,803,359,007. This was irregular and contrary to the stated Policy.

Where the VoP formulae has been applied, there have been mistakes/errors of varying base indices to the benefit of the Contractors. These include: varying indices for work elements that have not been used in the period under consideration; some indices quoted by contractors being outside the permissible ranges given at bidding while for some contracts the ranges were not given to guide the bidding process; computing adjustment factors for works accomplished over several months but using indices of one month; and applying the adjustment formula to variations and day works contrary to contract provisions. This has resulted into estimated over payments of Shs.18,878,212,129.

I was not able to ascertain the amount resulting from errors under the reconstruction of Masaka-Mbarara + Masaka-Kyotera because of lack of source documents, such as invoices and delivery/receipt documents for the materials in respect of which the price adjustments were made. Management was advised to ascertain the loss and recover accordingly.

Management explained that the application of the formula is being reviewed and any adjustments to the amounts shall be corrected accordingly.

I have recommended to management as follows:-

- For Packages 1, 4 and 6 where VoP was wrongly introduced, rates should have been adjusted to take care of any changes from the time of bidding to the time of award of the contracts.
- There is need for harmonisation of the Price adjustment formulae for all contracts. It is recommended that the bill by bill formulae be adopted.
• Base indices should not be changed after contract signing.
• For materials that no longer apply to the works as a result of design reviews, their coefficients should be redistributed accordingly to other elements in the BOQs.
• Sources of indices should always be consistent with those quoted in the bids.
• Application of the VOP formula should be done monthly using the respective monthly indices other than accumulating works of many months and applying indices of one month.
• The Price adjustment factor should apply to works as specified in the contract clauses.
• Overall, UNRA should be more robust technically in bid preparations and contract negotiations in order to streamline issues more especially those that affect price adjustments.
• UNRA should review all payments erroneously made under VoP and effect recoveries accordingly.

(e) **Overpayments to Contractors due to other Errors/Mistakes**

Over payments were made to contractors to the tune of Shs.6,794,199,037 during the year under review. These over payments arose out of inaccurate measurements, payments for unexecuted works and errors in measurement sheets. Details are shown below:-

I have advised UNRA Management to follow-up and ensure that these over payments are recovered.

<table>
<thead>
<tr>
<th>Project</th>
<th>Overpaid Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Busega-Muduma</td>
<td>6,317,075</td>
</tr>
<tr>
<td>2. Muduma-Mityana</td>
<td>366,632,837</td>
</tr>
<tr>
<td>3. Masaka-Mbarara/Masaka-Kyotera</td>
<td>Euros 8,690</td>
</tr>
<tr>
<td>4. Dokolo-Lira</td>
<td>2,029,735,142</td>
</tr>
<tr>
<td>5. Kampala-Gayaza-Zirobwe</td>
<td>189,379,242</td>
</tr>
<tr>
<td></td>
<td>Road Name</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>6.</td>
<td>Fort Portal-Kyenjojo &amp; Access Roads</td>
</tr>
<tr>
<td>7.</td>
<td>Biiso-Bukumi, Butiaba-Bukumi, Bukumi-Bulisa-Wanseko</td>
</tr>
<tr>
<td>8.</td>
<td>Kampala-Entebbe (road marking)</td>
</tr>
<tr>
<td>9.</td>
<td>Kalagi-Kayunga</td>
</tr>
<tr>
<td>10.</td>
<td>Arua-Manibe, Manibe-Koboko, Koboko-Oraba</td>
</tr>
<tr>
<td>11.</td>
<td>BRMP Package 1</td>
</tr>
<tr>
<td>12.</td>
<td>BRMP Package 2</td>
</tr>
<tr>
<td>13.</td>
<td>BRMP Package 3</td>
</tr>
<tr>
<td>14.</td>
<td>BRMP Package 4</td>
</tr>
<tr>
<td>15.</td>
<td>BRMP Package 5</td>
</tr>
<tr>
<td>16.</td>
<td>BRMP Package 6</td>
</tr>
<tr>
<td>17.</td>
<td>Muzizi-Kagadi, Muzizi-Katooke</td>
</tr>
<tr>
<td>18.</td>
<td>Moyo-Obongi</td>
</tr>
<tr>
<td>19.</td>
<td>Kabale/Kisoro-Bunagana, Kyanika link</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management explained that the IPCs were being reviewed and that any over payments will be recovered in the subsequent IPCs.

(f) **Road Safety Measures**

Improved roads lead to higher vehicle speeds and presents increased risks to road users particularly where the roads pass through populated areas. The safety measures that are being introduced include speed control humps and road signs.

However, the following matters were noted:-

- There are ‘overhead pedestrian crossings’ that were constructed few years back but are not effectively used.
- The vandalism/theft of road signs is still rampant in many areas of the country.
• The road humps being introduced cannot be easily seen and are themselves becoming a safety hazard at some locations.

• The use of material not prone to thefts/vandalism such as cast iron or concrete instead of aluminium for road signs was recommended after my Annual Report for 2009/10. The road humps should be constructed using materials with different texture/colour of AC or SD such as concrete or coloured paving blocks to attract the attention of the drivers (see pictures below).

Management explained that UNRA is investigating the use of alternative materials including pre-cast concrete structures that are less theft prone. UNRA also plans sending staff to neighbouring countries to study how the matter is being addressed.

(g) **Overstretched Contractors**
As noted during the 2009 audit, there are still cases of contractors who have been awarded a number of contracts all running concurrently. Such contractors are failing to cope and consequently all or most of their contracts are running late. For example, of the 24 audited contracts, four contracts being implemented by one contractor were behind schedule at the time of audit (October 2010). In most cases, no application for extension of time had been raised by the Contractor.

Management explained that UNRA intends to address this issue in future by considering the contractor’s capacity and workload in the evaluation process.
UNRA should consider this as a key issue in the evaluation process and bidders should be asked to provide information on on-going works not necessarily with UNRA but also with other clients.

Early warning on late completion of works should be raised by the supervisor and liquidated damages applied when there is no justification of extension of time.

(h) **Delays in Decision Making**

Delays in decision making by supervising consultants and UNRA were noted. These delays not only affect the smooth implementation of works but in some cases attract claims from the contractors. For example on Package 3 of the BRMP (Masaka-Kyotera-38.3km and Nyendo-Villa Maria) it was noted that although the supervising Engineer gave his recommendations on the contractor’s claim for Extension of Time (EoT) on 23rd December 2009, and the contract management specialist submitted his report on 14th January 2010, by the end of July 2010, UNRA had not given its position on the Contractors claim for extension. This is partly attributed to overloaded contract managers who have many other projects at the same time.

Management explained that UNRA sometimes delays making decisions due to the overstretched staff that are available for contract management and that the issue was being addressed by appointing the supervising consulting firms as both Project Managers and Contract Managers with clearly spelt out schedule of duties/terms of reference.

UNRA should ensure that contract decisions are made timely. It is also recommended that a limit be put for the maximum number of projects a UNRA Manager should have at a time to allow effective monitoring and management. The proposed transfer of the role of a project manager to the consultant may eliminate controls in the project management structure.
(i) **Disrespect by some Contractors**

It was noted that particular contractors do not respect the consultants. For example, on Package 3 of the BRMP (Masaka-Kyotera and Nyendo-Villa Maria) it was agreed in two consecutive monthly meetings for the consultant to meet with the Contractor to resolve outstanding administrative orders for variations but the contractor failed to attend the scheduled meetings without any reason or apologies. This could have affected smooth management of the respective projects as outstanding administrative matters remained unresolved.

Management explained that UNRA always urged all the parties to respect all the provisions of contract.

UNRA should not allow contractors to undermine the supervision consultants and where such incidents happen, contractors should be warned by the Client in writing.

(j) **Under Estimation of Earthwork Quantities**

Despite having carried out detailed engineering investigations, designs and design reviews for development projects, quantities especially for earthworks that were included in the BoQs were generally very low compared to the actual quantities in the interim certificates. In some cases the supervising consultants did not give approximations of the quantities of earthworks to be executed to completion. This was evident from the following contracts; Mattuga-Semuto-Kapeeka (NDF/HW/S001), Reconstruction and Rehabilitation of Busega-Muduuma–Mityana Road Lot 1 Section, Kabale-Kisoro-Bunagana/Kyanika and others.

This amounts to professional lapse on the part of the design/supervision engineers for which they should be held responsible.

Management explained that UNRA was taking steps to ensure comprehensive survey and documentation of designs currently being prepared and that a
technical assistance teams have been engaged to undertake technical audits on designs and documentation for quality assurance.

I have advised UNRA management to resolve the problem of over and underestimation of quantities thereby avoiding large discrepancies in the contract value.

(k) **Inconsistencies between Quantities in IPCs and Quantities in Back-up documents**

It has been noted that generally, for some IPCs, the quantities included in the summary as work done are not the same as the measured quantities as per back up data (measurement sheets) leading to over payments to contractors. For example, on Reconstruction of Priority Sections on Masaka – Mbarara IPC No.11 where some of such inconsistencies were noted and led to overpayments of Euros.8,690.

Management explained that UNRA will ensure that due diligence is carried out on all payments before final accounts are prepared including documentation with supporting attachments.

I have advised UNRA to warn the supervising consultants against laxity in measurement and certification of all payments. Corrections should be made immediately in the IPC following the one where the errors have been noted. Waiting to correct errors until the final account results into omission of some errors. Recovery of payments made as a result of the inconsistencies should also be made.

(l) **Payment for Unexecuted Works**

It was noted that in a number of cases the contractors’ were paid for more than the executed works in the reporting periods. This interferes with the process of monitoring progress and performance of contractors. These cases were noted in Strengthening and Upgrading of Kampala– Gayaza – Zirobwe Road, Package 3
BMRP, Arua – Manibe – Koboko - Wandi, Manibe - Koboko & Koboko – Oraba Roads and others. There is a risk of such payments not being recovered in the subsequent IPCs. The payments also amount to pre-financing the contractors without additional security guarantees.

Management explained that payments would be reviewed and certified appropriately in the circumstance where the supervision consultant certified payment against their instructions and that any anomalies would be addressed in subsequent IPCs.

I have advised management to warn the supervising consultants against laxity in measurement of executed works and certification of all payments. Recovery of payments made for unexecuted works should be made.

(m) **Delayed Completion of Works**

Generally, all projects except for Soroti – Dokolo and Dokolo – Lira, have not been completed in the scheduled time. This is partly contributed to under estimation of quantities in the BoQs and in a few cases, delays in making decisions by UNRA and Supervising Consultants and at times the Financiers. This has contributed to the overall costs of projects as the time related costs tend to increase as well. This was noted in Packages 2, 3, 4 of the BRMP.

Management explained that many contracts have not been executed as per original scheduled time due to various factors and that Contractual provisions for time extensions/penalties were incorporated in the contracts and applied to the respective defaulting parties.

UNRA should ensure that contracts are completed in/on time as delays can result into extra costs beyond the contractual allowable penalties to the contractor.
(n) **Delayed Submission of Interim Payment Certificates (IPCs)**
It was noted that certain contractors were not submitting certificates monthly as is generally required. In some cases they took up to seven months to submit IPCs making it difficult to monitor contractors’ performance. This was noted mainly in the maintenance works under Backlog Road Maintenance Project, Packages 1, 2 and 3.

Management explained that UNRA urges the contractors to implement the works and submit IPCs monthly for easy monitoring and planning however, some contractors fail to adhere to this. They indicated that UNRA will pursue the matter further with the contractors and encourage them to comply accordingly.

UNRA should enforce the preparation of IPCs on a monthly basis provided the minimum contractual work values have been achieved. If the contractors do not achieve the monthly expectations, it will be an indication that works will lag behind schedule.

(o) **Quality of Works**
Generally, the overall quality of the works on the roads that were audited varied from fair to good. There was notable improvement on quality as compared to roads audited in the previous year. However, the following matters were noted:

- Some particular works were found to be substandard i.e. concrete pipe culverts and headwalls under maintenance projects. The pipe cover for most of the culverts installed was below specifications and this caused breaking of the culverts. Again no action has been taken to control production of concrete pipe culverts since this issue was raised in the previous audit.

- Results from field tests undertaken on wearing courses of paved roads revealed that most works were done according to specifications. However tests on other works e.g. Sub-base layer for Soroti-Dokolo and Dokolo-Lira revealed low stabilisation values; Masaka –Mbarara DBM layers failed
important tests for some sections; while the AC on Kabale-Kisoro failed the indirect Tensile Strength.

- Cases where unsatisfactory civil works were noted include, Masaka–Kyotera BRMP Package 3 stone pitching, stripping on Nyendo-Villa Maria; Arua-Manibe-Koboko-Oraba gravelling works; Kabale–Kisoro road and culvert & gabion works on Katooke–Muzizi road.

Management explained that UNRA is continuously engaging the Supervision Consultants to ensure attainment of requisite quality of works on projects hence the notable improvement. They also indicated that they were building in-house quality control and materials testing capacity for maintenance projects and that so far materials testing laboratories at Lira Station in the Northern region have been established. Materials testing and quality control equipment for establishing a laboratory at Mbarara Station in the Southern region will be available by June 2011.

It is recommended that UNRA management should follow-up the undertakings and expedite the proposed plans in order to ensure quality of executed works.

(p) **Lack of detailed geotechnical investigations during the design phases.**

It was noted that the design consultants do not carry out detailed geotechnical investigations in areas where roads are proposed to pass through, especially swamps and other unfamiliar terrains. This results into waste of resources after the conventional methods used in such area have failed. For example, on Kabale-Kisoro road, at least shs.1.5 billion could be lost in materials that were used in failed sections because of not carrying out the detailed investigations.

Management explained that detailed investigation were carried out in accordance with the TOR issued to the firm that designed the road and that such investigations of the underlying soils were not under the purview of the supervising consultant.
It is recommended that where the road is to be constructed in unfamiliar terrains and swamps, detailed studies of the underlying soil layers should be carried out in order to avoid wastage of resources when works have failed and have to be redone in these areas. The supervising consultants should also be able to advise UNRA on areas where such investigation are required before the works begin.

**Key findings for individual projects**

<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development Projects</strong></td>
<td><strong>Reconstruction and Rehabilitation of Busega-Muduuma–Mityana Road Lot 1 Busega – Mu duuma section (Km 0+400 to 27+000)</strong></td>
<td></td>
</tr>
<tr>
<td>Anomalies in contract documents e.g. Contract amount missing in contract agreement; contingencies for provisional sums.</td>
<td>Identified anomalies are being addressed in future contracts</td>
<td>UNRA to implement the undertakings and ensure that any subsequent BoQs are properly computed in respect of contingencies and provisions.</td>
</tr>
</tbody>
</table>
| Slow progress of work by the Contractor; by July 2010 when 2/3 of the contract time had expired, the contractor had only executed 1/3 of the physical works. By October 2010, the contractor had not requested for extension of time. | Contractor have been granted extension of time; and UNRA urged the Contractor to make up for own delay | - UNRA to follow up and the contractor should be tasked to complete the works within the granted time extension.  
- Delays due to the contractor or consultant should be computed and recovered. |
| Increased quantities of work items as of certificate no. 10 of July 2010 e.g. Item 61.02 (a) (i) excavation of soft material up to 2m depth increased by 8,600%; and Item 61.04 (b) Imported material for backfill increased by 315%. This may be arising out of underestimations of quantities at the design stage. | Increased was shortfall in the design but have been necessary to complete the project successfully. UNRA is undertaking audits on designs being undertaken by Consultants to minimise this occurrence in future contracts. | - UNRA should implement the undertakings.  
- Design consultants should be held responsible for the design flows. |
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some inconsistencies in IPCs e.g. In IPC no. 10, the back-up sheet for item 23.07 (a) Trimming of excavations for concrete lined drains indicated worked quantity as 620m³ but the summary indicates 2,588.50m³ causing an overpayment of Ushs.5,807,075; The back-up sheet for item 64.01 (a) (i) Concrete class 15 for blinding box culverts, was incomplete and does not show how the quantity of 5.139m³ was arrived at.</td>
<td>Upon being identified, inconsistencies in IPCs are notified to the Supervision Consultant for rectification in the subsequent IPC Inconsistencies identified by the audit team have been notified to the Supervision consultant</td>
<td>UNRA to follow up and ensure full recovery of the money in the subsequent IPCs.</td>
</tr>
<tr>
<td>Longitudinal hairline crack in asphalt was observed at Km 24+050;</td>
<td>The hairline crack in the asphalt surfacing has been under observation for some time now and is not expanding. It will therefore be treated appropriately.</td>
<td>UNRA management to follow up. Investigations should be carried out to identify the cause of the crack.</td>
</tr>
<tr>
<td>Gradual loss of the stone base material along the road edges especially in urban areas.</td>
<td>This is being addressed through extending the concrete lining of drains to the asphalt concrete level in the urban sections. In the rural sections, this is to be addressed through grassing and topsoiling.</td>
<td>UNRA management should follow up to ensure that edges of the road are properly protected in the areas identified during the audit.</td>
</tr>
<tr>
<td>Inadequate stabilisation at Ch.15+564. Tests conducted at this point showed a lime content of 0.8% which is considered to be too low as compared to other points tested that indicated 4.1%.</td>
<td>Stabilisation has been re-checked by the Consultant and found to be compliant UNRA plans to its own verification of the degree of stabilisation at the location</td>
<td>An independent third party should undertake the investigations.</td>
</tr>
<tr>
<td>Inconsistencies in progress reporting. For example in the progress report for July 2010, the report contradicts itself on physical progress of works i.e. on page 2-1 the overall progress of works is indicated as 39.41% while on page 7-2 it is indicated as 33.85%.</td>
<td>UNRA point outs and will continue to point out identified inconsistence to the Supervision Consultant</td>
<td>UNRA to follow up and ensure that the inconsistencies pointed out to the consultants are properly addressed.</td>
</tr>
</tbody>
</table>

2. Reconstruction and Rehabilitation of Busega-Muduuma-Mityana Road Lot 2 Muduuma – Mityana section (Km 27+000 to 57+180)

| Anomalies in contract documents e.g. Contract amount missing in contract agreement; contingencies include provisional sums. | Identified anomalies are being addressed in future contracts | The contingencies in the provisional sum should be adjusted in the contracts where they exist. |
## Key findings

| Slow progress of work by the Contractor; by July 2010 when 73% of the contract time had elapsed, the contractor had only executed 30% of the works. By October 2010, the contractor had not requested for extension of time. The delay could be attributed to overstretching of this contractor who had many other running contracts at the same time. |
| Contractor have been granted extension of time; and UNRA urged the Contractor to make up for own delay |
| UNRA to follow up and ensure that the contractor completes the works within the time extension granted. The contractor should be tasked to commit more resources to the project. Delays due to the Contractor should be established and costs recovered. |

| Inconsistencies in IPCs e.g. in IPC no. 5 Item 62.01 Formwork to provide class F1 surface finish to concealed surfaces of box culverts, the rate has changed from Ushs.18,000 to Ushs.33,500 so far causing an overpayment of Ushs.5,642,837. |
| Upon being identified, inconsistencies in IPCs are notified to the Supervision Consultant for rectification in the subsequent IPC Inconsistencies identified by the audit team have been notified to the Supervision consultant |
| UNRA to follow up. The consultants should be instructed to exercise more control in the preparation of IPCs. The contract manager should ensure that full recovery of the amount is made. |

| It was noted that the formworks for concrete structures were being poorly made. |
| UNRA had prior to the audit notified the supervision consultant of this aspect. Some works have had to be redone by the Contractor as a result |
| The consultant should his supervision capacity to ensure that works executed meet the required quality. |

| Inadequate road safety measures such as warning signs were not well positioned in some sections e.g. diversions and road safety aspects along culvert locations were not adequately catered for. This can lead to fatal accidents at the construction sites. |
| Road safety measures are being hampered by vandalism of the signs and safety ribbons. Nonetheless, the Contractor has always been asked to replace them whenever they have been stolen or damaged |
| UNRA should enforce road safety measures and encourage contractors to use materials that are not prone to vandalism. |

<p>| Inadequate compaction at Ch. 36+048; the CBR value obtained for the improved sub grade layer was 37% instead of &gt;50%. |
| Stabilisation has been re-checked by the Consultant and found to be compliant UNRA plans to its own verification of the degree of stabilisation at the location |
| It is recommended that an independent verification be carried out to confirm the consultant’s information. UNRA to implement the undertakings. |</p>
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. <strong>Reconstruction of Priority Sections on Kampala-Mbarara road: (Northern Corridor – Uganda) Package B: Masaka – Mbarara &amp; Masaka – Kyotera</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No general formula for price adjustment was provided for in this contract. Instead an adjustment provision for specified categories of labour and supplies was allowed. The method for computing the revision of price for supplies was based on materials actually supplied/delivered but this could lead to compensation for supplies that have not been utilized in the works.</td>
<td>The detailed explanation for computing the Revision of Price for Supplies is given under article 48.2.5 of the Special Conditions of Contract</td>
<td>The use a formula with adjustment factor that applies to the value of works done (FIDIC Model) is recommended.</td>
</tr>
<tr>
<td>Some inconsistencies in Contract documents e.g. the schedules of basic prices quoted are inclusive of VAT and yet article 48.2.5 of the special conditions of the contract restricts prices to be exclusive of VAT.</td>
<td>UNRA will in future guard against inconsistencies in the documents</td>
<td></td>
</tr>
<tr>
<td>Only one originally evaluated Contractor staff is on site. This may, in one way or the other affect the quality and progress of works. The changing of almost all staff on this project raises questions as to whether the originally evaluated staff were available for the project.</td>
<td>Due to unavoidable circumstances, some staff have to change during implementation of the project and there are contractual provisions concerning the substitution of the staff.</td>
<td>UNRA should be stricter on ensuring that originally evaluated staffs are deployed as one of the criteria for selection of the contractor is the staff to be deployed. Staff with inferior qualifications than those evaluated should not be approved by the client.</td>
</tr>
<tr>
<td>Inconsistencies in IPCs; e.g. the rate in the contract BoQ for item 22.03 (a) (ii) New concrete pipe culverts 900mm dia is €245.23 while in the IPC No. 11 it is €245.43; and the summary does not indicate item 25.01 (b) Grouted stone pitching whereas the back-up sheet indicates 3,659.5m² of stone pitching performed in the period. There is a risk of losing funds through these inconsistencies.</td>
<td>Agreed. The inconsistencies noted are always corrected in the subsequent IPCs.</td>
<td>UNRA to follow up and instruct the consultants to exercise more control and ensure accuracy in the preparation of IPCs in order to make them more accurate and consistent with the BOQs.</td>
</tr>
<tr>
<td>Unclear calculations for VoP; Review of IPC No.7, shows that the price was varied even when the variation in the price of diesel was as</td>
<td>Calculations for revision of prices are clear and are in accordance with the EDF9 guidelines</td>
<td>Management response was not satisfactory. UNRA should ensure that the payments in respect of</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/ Recommendations</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Low as 2% i.e. for months of April, July and August 2009 contrary to Article 48.2.3 of the special conditions of contract which requires no revision of prices unless the variation in the price applicable to the category of manpower or supply for which revision of prices is claimed exceeded 5% of the basic price or index. Also the sources of supplies were from suppliers other than those specified by the contractor and where the base quotation was obtained.</td>
<td>This is how the road was designed so as to enhance the safety of the pedestrians and cyclists by having a step</td>
<td>Variation of prices for supplies is in accordance with the respective Article 48 of the Special Conditions of Contract. UNRA should review the computations in the 1PCs to ascertain the extent of the error and recover accordingly.</td>
</tr>
<tr>
<td>High difference in levels between carriageway and shoulders of 50mm can easily make a driver loose control if he/she moves to the shoulder at high speed.</td>
<td>It is not correct that such a design enhances the safety of pedestrians and cyclists as the action of drivers loosing control after moving to the shoulder puts the pedestrians in a more risky situation.</td>
<td></td>
</tr>
<tr>
<td>Communities are blocking culvert outflow channels to create temporary dams for cattle. This activity is considered detrimental to the road creates seepage of the water into underlying pavement layers of the road. In some places, fences were being erected close to the road shoulders e.g. Km 232 LHS. This obstructs required clearances for approaching traffic.</td>
<td>The sociologist will commence community sensitisation to mitigate the acts of erecting fences close to the road shoulders and blocking of outflow channels.</td>
<td>UNRA should undertake enforcement measures to deter communities from carrying out activities that could damage the road.</td>
</tr>
<tr>
<td>Inadequate considerations for Occupation, Health and Safety (OHS); the workers protective gear was inadequate (lack of gumboots, gloves and dust protectors). This exposes workers to health risks. The audit team also registered verbal complaints from workers that when they get accidents, they are not treated and in some cases they are instead dismissed altogether.</td>
<td>UNRA will ensure that there is continuous improvement on OHS on the project</td>
<td>The consultant should enforce the conditions of contract related to OHS and ensure that workers are not mistreated.</td>
</tr>
<tr>
<td>Poor quality DBM within limits of Ch. 216+500 and 229+700; samples taken from this section disintegrated during coring and when tested, the bitumen content on this section has been found satisfactory after joint re-testing by UNRA,</td>
<td>It is recommended that the section be closely observed. In case of any failures, the indemnity</td>
<td></td>
</tr>
</tbody>
</table>

424
<table>
<thead>
<tr>
<th><strong>Key findings</strong></th>
<th><strong>Management Response</strong></th>
<th><strong>Audit Remarks/Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>binder content in the sample was found to be 2.1% instead of specified 4.5%</td>
<td>the contractor and the consultant.</td>
<td>clauses of the contract should be invoked.</td>
</tr>
<tr>
<td>There are some accusations and counter accusations between the Resident Engineer and a former Materials engineer. No UNRA position on the accusations that seem to be revolving around poor works.</td>
<td>UNRA position was to let the Consultant manage his internal issues</td>
<td>The allegations raised should not be underestimated but rather be investigated as they indicate that some quality aspects could have been compromised at some point especially when the materials engineer was left acting in place of the Resident engineer.</td>
</tr>
</tbody>
</table>

4. **Upgrading of Soroti - Dokolo – to Bitumen Standard**

The price adjustment formula was not correctly applied and this resulted into excess payments to contractor estimated at Shs.3,217,890,994. The local labour base index was altered and indices for items not executed in the relevant period were also being varied.

The formula was applied correctly as in other RDP projects. UNRA will application of the formula with UBOS and computations will be verified again before final report.

It is recommended that UNRA management reviews the formula and its application. The amount overpaid due to wrong application of the formula of Shs.3,217,890,994 should be recovered.

The bitumen used for surface dressing works does not seem to cure and aggregates are stripping at various sections of the road.

The surfacing is being monitored and defects are notified to contractor to rectify.

The road should be placed under close supervision with a view of invoking indemnity clauses of the contract in case the defects continue to occur.

Erosion of embankments is contributing to silting of culverts and may result in flooding as well as loss of shoulder support material.

Quality of top soil used will be checked to ensure it supports growth of grass.

UNRA to implement the undertaking and ensure that the embankments are properly protected.

Reflective delineators were not used to warn the road users at hazardous locations. Instead the marker posts were simply painted and yet the payment was made for reflectors.

Delineators have been constructed in the approaches to swamp crossings and round sharp bends. The payment for delineators without reflectors will be recovered until the contractor fixes the reflectors.

UNRA should follow up the matter to ensure that the specified delineators are fixed.

Recoveries should be made in respect of the delineators or the amount paid for them be ascertained and recovered.

Tests carried out showed that the The 4% cement was Response is noted.
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>cement content in the sub-base layer was below the specified level; in some instances as low as 2.7% instead of 4%.</td>
<td>required to achieve the modified properties of the stabilised layer. Results of quality control results indicate required modified properties were achieved. This indicates at least 4% cement was added to the gravel.</td>
<td>However, achievement of material properties might not necessarily require 4% cement. Therefore the actual cement used should have been evaluated and paid for. Detailed investigation / calculation on the actual amounts of cement used in the sub base layer should be done and the excess payments made to the contractor should be recovered.</td>
</tr>
</tbody>
</table>

5. **Upgrading of Dokolo – Lira to Bitumen Standard**

Inconsistencies in IPCs; e.g. in IPC No. 22 under item 22.01 (a) Excavation for pipe culverts and 22.02(a) backfilling, other items like delineators and duct posts were included in the quantities and yet these items are also paid separately under items 52.03 and 22.11 respectively. This caused an overpayment of Shs.1,780,507, in IPC 22 alone. Item 22.06 (c), (Provide, place and compact Class 15/40 concrete blinding), was intended for drainage works only but this item was also used to pay for duct posts and delineators causing an overpayment of Shs.22,538,638.

The price adjustment formula was not correctly applied and this resulted to excessive payments to contractor estimated at Shs.3,936,409,597. The overpayment was due to varying the cement indices in VoP formula while it was not executed at the time; and changes in the Local labour base index from 151.1 to 108.7 thus increasing the ratio.

The bitumen used for surface dressing works does not seem to cure and aggregates are stripping;

<p>| Payments will be reviewed before final accounts are made. | The formula was applied correctly as in other RDP projects. UNRA will application of the formula with UBOS and computations will be verified again before final report. | UNRA should follow up the matter and ensure full recovery of the amount wrongly paid through VOPs. (Shs3,936,409,597). |
| The road should be placed under close supervision with a view of invoking | The performance of the surfacing is being monitored. | The road should be placed under close supervision with a view of invoking |</p>
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bleeding noted in some sections especially at approaches to road humps.</td>
<td>Bleeding areas are notified to the contractor in the quarterly inspections.</td>
<td>UNRA management should ensure that the defects are corrected before final acceptance of the works and settlement of the final claim.</td>
</tr>
<tr>
<td>Use of unsuitable soil for grass planting; for example, at Ch. 102+400 sandy gravel was applied instead of loamy soils.</td>
<td>This will be reviewed and appropriate soil will be used to support growth of grass.</td>
<td>UNRA to implement the undertaking and have the sandy material replaced by the contractor.</td>
</tr>
<tr>
<td>Poor compaction of underlying layers was observed at bypass West roundabout. This may lead to premature failure of the section.</td>
<td>This defect will be verified and notified to the contractor for remedy.</td>
<td>The section should be re-compacted to the required levels.</td>
</tr>
<tr>
<td>LHS outflow channels were incorrectly done. This caused siltation of the culverts and water ponding.</td>
<td>This will be verified in the quarterly inspection for appropriate action.</td>
<td>UNRA to implement the undertaking</td>
</tr>
<tr>
<td>Poorly aligned and unsealed joints for access culverts.</td>
<td>This will be verified in the quarterly inspection for appropriate action.</td>
<td>UNRA should follow up and ensure that the defects are corrected.</td>
</tr>
<tr>
<td>Erosion of embankments is contributing to silting of culverts and may result in flooding as well as loss of shoulder support material.</td>
<td>This may be a temporary phenomenon from loose construction material. Culverts will be desilted.</td>
<td>A more appropriate intervention is lining of the area above the headwall up to the shoulder breakpoint.</td>
</tr>
<tr>
<td>Reflective delineators were not used to warn the road users at hazardous locations. Instead the marker posts were simply painted and yet the payment was made for reflectors.</td>
<td>Delineators have been constructed in the approaches to swamp crossings and round sharp bends. The payment for delineators without reflectors will be recovered until the contractor fixes the reflectors.</td>
<td>Response is satisfactory. UNRA to implement the undertaking.</td>
</tr>
<tr>
<td>Tests carried out showed the cement</td>
<td>The 4% cement was</td>
<td>Achievement of material</td>
</tr>
<tr>
<td><strong>Key findings</strong></td>
<td><strong>Management Response</strong></td>
<td><strong>Audit Remarks/ Recommendations</strong></td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td>content in the sub-base layer was below the specified level causing an overpayment estimated at Shs.2 billion as of IPC No. 22 of May 2010.</td>
<td>required to achieve the modified properties of the stabilised layer. Results of quality control results indicate required modified properties were achieved. This indicates at least 4% cement was added to the gravel. UNRA will carry out additional tests to verify cement content.</td>
<td>properties might not necessarily require 4% cement. Therefore the actual cement used should have been evaluated and paid for. UNRA to implement the undertaking and recover the overpayment (Shs. 2 billion) Independent verification/tests should be carried out to confirm the cement levels.</td>
</tr>
<tr>
<td>Erroneous measurements for stone pitching. The length paid for stone pitching includes sections where access culverts have been installed and which have been paid for separately.</td>
<td>These measurements will be reviewed before final accounts are issued.</td>
<td>UNRA to follow up the matter and ensure that payments are made for the correct measurements.</td>
</tr>
<tr>
<td><strong>6. Pilot Project for the demonstration of Innovative Technologies for the Construction of Low Traffic Volume Roads on Mattuga – Semuto – Kapeeka Road</strong></td>
<td>It is correct that quantities increased. The cause of this is that during the design stage because the project road was considered to be a low traffic volume road some assumptions with respect to the re-use of most of the excavated material were made during the cost optimization process. As a result the provision for fill material was very small in the BOQ. During project implementation, most of the excavated material was found unsuitable for re-use in the permanent works hence the increase in earthworks quantities.</td>
<td>Design Engineer exhibited professional lapse and should have been held responsible for the design flaws.</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Headwalls on most culverts were constructed with wing walls converging towards the culverts because the sub contractors could not interpret the drawings</td>
<td>The sub-standard headwalls were demolished and new ones constructed.</td>
<td>The intervention did not cover all the defective headwalls as the verification audit still revealed that while some of the defective headwalls had been reconstructed, others were not. UNRA to follow up.</td>
</tr>
</tbody>
</table>

7. Strengthening and Upgrading of Kampala – Gayaza – Zirobwe Road

| Slow progress by the Contractor; from the report of August 2010 the progress of works was reported at 60.95% against the target of 68.85% and the completion date is October 31st, 2011. | The slow progress by the Contractor has been occasioned by increased scope on the project and encumbrances on site  
- Engineer has evaluated the Contractor’s claims for extension of time based on the above issues and determined that the Contractor is entitled to extension of time up to 22 June 2011.  
- Contractor is being asked to make up for his own delay. | UNRA should closely follow up progress of works and ensure that the works are completed within the specified time frame in order to avoid escalation of costs. |

| Commissioning works before full compensation for properties in the right of way. This greatly affects progress of works by the contractor and may eventually lead to escalation of costs. | Due to their complexity acquisition issues, it is impossible under the current legislation to resolve all land related issues without greatly delaying project start. None the less UNRA is for newer projects trying to advance land acquisition as much as is possible prior to commissioning of works. | UNRA should follow up the matter with appropriate authorities to ensure that right of way for roads is acquired without much resistance from the property owners. |

<p>| No quality control tests for concrete and corrugated metal culverts seen in the reviewed documents. There is a risk that substandard materials may be used. | The Contractor out-sources supply of concrete culverts and copies of the quality testing certificates for the items have been availed as attachments to this response | It is recommended that these quality control test results always be appended to the quality tests reports in the progress reports for the purpose of monitoring. |</p>
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Contractor imports the Armco culverts and copies of the quality testing certificates for the items have been availed as attachments to this response</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wrong application of the Price adjustment formula leading to overpayment estimated at Shs.1.9 billion.</td>
<td>The application of the price adjustment formula on the project is being reviewed. Some of the anomalies have been notified to the Supervising Consultant prior to the audit.</td>
<td>UNRA should follow up and ensure full recovery of the amounts over paid. (Shs1.9 billion)</td>
</tr>
<tr>
<td>Under-scouring of some stone pitched sections was observed on a number of sections of the road at 33 +800</td>
<td>Stone pitching works were ongoing at the time of the audit and any anomalies identified will be addressed prior to substantial completion of the works</td>
<td>Recommended that UNRA should follow up and ensure that any defects are rectified before final payments are effected.</td>
</tr>
<tr>
<td>OHS matters were not properly addressed. Most of the workers did not have appropriate working garments/protective gear. The temporary traffic warning signs were inadequate especially for warning signs ahead of works. This can easily cause fatal accidents.</td>
<td>Compliance by the Contractor with OHS requirements is being monitored through compliance checking on site. Copies of the compliance reports have been availed as attachments to this response</td>
<td>The compliance report referred to does not address OHS matters but addresses environmental issues. UNRA through the consultant should enforce contractual obligations for OHS.</td>
</tr>
<tr>
<td>2\textsuperscript{nd} seal chippings poorly graded with 100% passing 14mm sieve and 42% passing 10mm sieve</td>
<td>Testing of the grading of the chippings is being undertaken by the Consultant. Copies of recent test have been availed as attachments to the management response</td>
<td>The consultant should exercise more controls over quality of materials used by the contractor.</td>
</tr>
<tr>
<td>Inconsistencies in certified works Vs actual works done e.g. grouted stone pitching had been overpaid by UShs.175million as observed from IPC No. 15.</td>
<td>UNRA notifies the supervision consultant of identified anomalies in the interim payment certificates. The anomalies pointed out by the audit team have</td>
<td>It is recommended that only physical measurements should be used to identify such anomalies. UNRA should introduce internal but independent spot checks</td>
</tr>
</tbody>
</table>
### Key findings

<table>
<thead>
<tr>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>already been pointed out to the Consultant for rectification in subsequent interim payment certificates (IPCs) submitted by the Contractor.</td>
<td>to be able to capture such anomalies timely. The supervision consultant should be instructed to exercise more controls in the preparation of IPCs. Recovery of Shs.175 millions should be effected.</td>
</tr>
</tbody>
</table>

### Upgrading of Kabale – Kisoro – Bunagana / Kyanika Road

8. The supervising consultant (Mott MacDonald) was engaged and assigned to review the design when the tendering for works had been finalized. As a result, the works have had to be implemented as designs were being made and modified. The contractor has raised concerns over the matter and indicated that this may cause delays in implementation of the physical works.

The decision to proceed with procurement of the civil works contractor before completion of the design review was completed was made proactively by all parties concerned to deliver the project on time. The extension of time was due to delay to effect compensation and hand over site and not due to lack of designs.

It is important that design reviews are done prior to finalisation of the works tender documents and any revisions incorporated in the final documents and bidders know the actual design during the bidding phase.

The design review conducted by M/S BKS recommended use of EVA polymer modified Asphalt Concrete (AC) and construction of rigid pavement on sections where the road has ‘hair pin bends’. However these were dropped and the unmodified AC20 was used for the entire road. Tests conducted on the AC20 applied failed the Indirect Tensile Strength test implying that it does not meet stability requirements at the bends where it is susceptible to deformations.

The EVA polymer modifier was not available on the market. The mix was redesigned by the consultant to obtain an equivalent mix. The finished road has been trafficked for one year (which is the critical time) and there is no sign of moisture induced damage. The asphalt concrete is therefore sound.

The indirect tensile strength tests are not daily tests; they are conducted once in a month with the asphalt mix produced from the plant and compacted in the laboratory.

It is recommended that the requirement of rigid pavement (concrete) on some sections of this road especially at the ‘hair pin bends’ should not be compromised. Asphalt Concrete cannot resist the induced forces from the sharp turning of heavy vehicles at very slow speeds.
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
</table>
| A number of sections of the 50km completed road have failed/are failing, mainly within the swamps and areas with high embankments. The failures could be attributed to:-  
  - Lack of detailed geotechnical investigations during the design phases.  
  - Insufficient time allowed for settlement/ consolidation of fills and embankments.  
  - Huge amounts of gravel or surcharge material was dumped sometimes on the existing and seemingly stable embankment of the original road  
  - Appropriate swamp treatment procedures were not followed and were actually not designed for although the terms of reference for the design consultants included this requirement.  
  - The failures have resulted into financial loss amounting to a minimum of Shs1,534,147,245 being funds paid to the contractor for the works that have failed on sections inspected. | During design phases, geotechnical investigations were carried out in accordance with the terms of reference.  
The specified construction method (in these sections) for the shoulders and non-pavement fill beyond the shoulders is by benching and keying into the other layers with adequate compaction.  
Allowing time for settlement and consolidation was not provided for and indeed the completion time was specified as 36 months.  
The supervision consultant has to complete the design review. The project had to start with an incomplete design because of the need to secure funding under ADF cycle 9 which was then about to close.  
The failures have occurred mainly in materials placed on the original road for purposes of building up (old road) levels to the new road levels. It is not a case of swamp treatment procedures.  
It is proposed to engage an independent consultant to study the issue of cracks/subsidence and appropriately apportion responsibility for their occurrence. | It is recommended that where the road is to be constructed in unfamiliar terrains and swamps, detailed studies of the underlying soil layers should be carried out in order to avoid wastage of resources when works have failed and have to be redone in these areas. The supervising consultants should also be able to advise UNRA on areas where such investigation are required before the works begin.  
UNRA should follow up the issue of road failures by engaging an independent consultant to study the issue of cracks/subsidence and appropriately apportion responsibility for their occurrence. |
| Slopes on cuts were found to be too steep on a number of sections of the road. The slippage of earth is due to the presence of | This slippage of earth is due to the presence of | UNRA should always design the cut slopes for |
### Key findings

road. It was noted that many of them have been eroded, blocking the side drains and parts of the road. The eroded material is removed by the Contractor at costs charged under Day Works. An amount of Shs323,786,832 had been spent for this purpose as of August 2010. This could have been minimised if an appropriate design of the slopes was done. The future maintenance costs are likely to be extremely high as the slopes will continue to erode/fail.

### Management Response

top soil beyond and on top of the cut and the heavy rain fall in the project area. The steeper slope was adopted with the sole purpose of minimising the project cost. If the regular cut slope of 2:1 (H:V) is adopted, for a length of 68km, the additional quantity of earth cut will be about 1 million cu.m. costing an additional Ush16 billion. The project would be extended by another 40 months.

### Audit Remarks/
Recommendations

them to be stable. Benching method or provision of gabions should have been considered at the places prone to erosion. The continuous cost of removal of collapsing soil will outweigh the costs for the interventions.

### Management Response

We have requested the Engineer to review all past Interim Payments to reconcile the payments with the contract requirements (specifications).

### Audit Remarks/
Recommendations

•Base indices should be fixed and not be changed after contract signing.
•For items that no longer apply to the works as a result of design reviews, their coefficients should be redistributed accordingly to other applicable items.
•Sources of indices should always be consistent with those mentioned in the bids.
•The Price adjustment factor should apply to works as specified in the contract clauses.

UNRA should review all payments erroneously made under VoP application and make appropriate recoveries. (Shs9,790,330,335)

---

<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>road. It was noted that many of them have been eroded, blocking the side drains and parts of the road. The eroded material is removed by the Contractor at costs charged under Day Works. An amount of Shs323,786,832 had been spent for this purpose as of August 2010. This could have been minimised if an appropriate design of the slopes was done. The future maintenance costs are likely to be extremely high as the slopes will continue to erode/fail.</td>
<td>top soil beyond and on top of the cut and the heavy rain fall in the project area. The steeper slope was adopted with the sole purpose of minimising the project cost. If the regular cut slope of 2:1 (H:V) is adopted, for a length of 68km, the additional quantity of earth cut will be about 1 million cu.m. costing an additional Ush16 billion. The project would be extended by another 40 months.</td>
<td>them to be stable. Benching method or provision of gabions should have been considered at the places prone to erosion. The continuous cost of removal of collapsing soil will outweigh the costs for the interventions.</td>
</tr>
<tr>
<td>A total of <strong>Shs.31,961,430,573 (21.73% of the contract price)</strong> had been certified and paid in respect of VoP as of August 2010 (IPC No. 41). Computations for VoP had errors which have contributed to an overpayment of at least Shs.9,790,330,335. The errors include among others: • Altering of the bases/denominators for price indices being applied for Local labour, Expatriate Labour, Plant &amp; Spares, and Metal Products. • VoP is being applied for Lime while the material is not used in the works. • The Price Adjustment Factors were applied without deduction of day works and variations as per Sub-Clauses 60.1 (e) and 60.1(f). • The initial formula for VoPs was wrongly adopted for the variations relating to the double surface dressing for Kisoro-Bunagana/Kyanika whose rates were submitted during the implementation of the project. • Adjustable elements not used in particular months were varied even when the items are not used in that month.</td>
<td>We have requested the Engineer to review all past Interim Payments to reconcile the payments with the contract requirements (specifications).</td>
<td>•Base indices should be fixed and not be changed after contract signing. •For items that no longer apply to the works as a result of design reviews, their coefficients should be redistributed accordingly to other applicable items. •Sources of indices should always be consistent with those mentioned in the bids. •The Price adjustment factor should apply to works as specified in the contract clauses. UNRA should review all payments erroneously made under VoP application and make appropriate recoveries. (Shs9,790,330,335)</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/ Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>period.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>● The fuel coefficient weighting applied was 23% which is outside the permissible range of 5-15% that was provided to bidders.</td>
<td>All staff staff changes have been made in accordance with the provisions of the service contract. Although some operations of the project might have been effected, the overall overarching project outputs have not been adversely affected by the changes of staff.</td>
<td>UNRA should ensure that originally evaluated staff are all deployed and this should be confirmed by the bidder at the time of contract signing.</td>
</tr>
<tr>
<td>● It was noted that there are many sources of data for the indices and many times the contractor uses profoma invoices. National Bureau of Statistics and should have been used as a source of these indices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Consultant’s key staff listed in the Contract have all been changed. For example the post of Measurement Engineer experienced three replacements within two years and at one time the post was vacant for more than five (5) months.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Widening and re-sealing of shoulders and access roads on Fort Portal – Kyenjojo (Km 0+000 – Km 10+000) and improvement of parking aprons and parking areas around Mpanga market</td>
<td>UNRA has started the termination process;</td>
<td>UNRA have to make timely decision on matters that could cause financial losses. - The termination process should be followed.</td>
</tr>
<tr>
<td>Delayed completion of works causing deterioration of unprotected works; by July 2010 the project physical progress was 70% while time progress was 255.56%. The recommendation from the 2009 audit was to terminate the contract.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defects were observed such as stripping of aggregates on steep sections and the surface of shoulders do not overlap with carriageway. A number of broken culvert headwalls were noted.</td>
<td>The Contractor was instructed to correct all defects.</td>
<td>It is difficult for such a non-performing contractor to correct the defects. The works should be contracted to another firm to complete.</td>
</tr>
<tr>
<td>10 Periodic Maintenance of Biiso-Bukumi, Butiaba-Bukumi &amp; Bukumi-Buliisa-Wanseko roads (68Km)</td>
<td>Inconsistencies in contract documents were noted for future corrective action;</td>
<td>UNRA should enhance quality control during preparation of contract documents.</td>
</tr>
<tr>
<td>Inconsistencies were observed in contract documents; for example the contract duration, contract signing dates and the title of the Project Manager are wrongly stated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>----------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Inconsistencies were observed in IPC No.4; the measurement sheets show different quantities to those in the BoQ summary.</td>
<td>Inconsistencies in IPC No.4 were corrected under the Final Payment Certificate;</td>
<td>The supervision consultants should be instructed to exercise more control in the preparation of IPCs.</td>
</tr>
<tr>
<td>Inadequate pipe cover to culverts; this can lead to pipe cracking/breakages</td>
<td>Inadequate pipe cover to culverts to be corrected by the Contractor;</td>
<td>It is recommended that UNRA follows up with the contractor to ensure that the corrections are made.</td>
</tr>
<tr>
<td>Poorly jointed &amp; aligned; cracked and silted culverts.</td>
<td>Poorly jointed &amp; aligned; cracked and culverts to be addressed by the Contractor.</td>
<td>UNRA to follow up with the contractor and ensure that the defects are corrected.</td>
</tr>
<tr>
<td>Inappropriate drain levels causing ponding;</td>
<td>Inappropriate drain levels causing ponding are due to the area terrain.</td>
<td>Outflow channels should be provided to discharge the water far from the road.</td>
</tr>
<tr>
<td>Inconsistencies in grading and gravel width of road sections leading to overpayment of approximately Shs.116 million.</td>
<td>Inconsistencies in grading and gravel width of road sections were due to the intensive rainfall that occurred in the area after grading and regravelling.</td>
<td>Further investigations and measurements should be conducted and any overpayments recovered from the contractor.</td>
</tr>
<tr>
<td>Progress reports lack important information about the project. Some of the information contained is contradictory.</td>
<td>The quality of reports has been improved.</td>
<td>Continuous improvement is recommended.</td>
</tr>
</tbody>
</table>

### 11 Periodic Maintenance of Hoima (Kiziramfumbi) – Kabwoya – Kagadi Road (69 Km)

- The drawings in the contract are of poor quality and the words/letters are illegible

  - The drawings have been improved;
  - Continuous improvement is recommended.

- The progress of works is behind schedule. Contract period expired on 20/4/2010 and no extension of time had been granted.

  - The contractor ultimately completed the works and was charged liquidated damages.
  - Causes of unnecessary delays in execution of works by contractors should be investigated.

- Performance Bond expired in April 2010 and validity had not been extended

  - The Contractor extended the validity of the performance bond up to 15th January 2011;
  - The performance bonds have to be extended timely.

### 12 Term Maintenance of Nyakahita – Rushere – Rwakitura Road (45km)

- The drawings in the contract are of poor quality and the words/letters are illegible

  - Clear and good drawings are now being included in contract documentation
  - Continuous improvement is recommended.

- Some of the maintenance works were not being effectively done, for example, there was loss of camber between Ch. 24+000 and 24+ 300

  - All the works are now being effectively implemented.
  - UNRA supervision team should be more aggressive in ensuring that works are done to the required
<table>
<thead>
<tr>
<th>Key Findings</th>
<th>Management Response</th>
<th>Audit Remarks/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>leading to water ponding and corrugations; drains and culverts (e.g. Ch. 17+000) were observed to be fully silted and required de-silting.</td>
<td></td>
<td>quality and standards.</td>
</tr>
<tr>
<td>The IPC No. 6 lack necessary information required for checking correctness of certified payments.</td>
<td>All vital information including measurement sheets and management reports are now included as supporting information in the IPCs.</td>
<td>UNRA supervision team should exercise more control in the preparation of IPCs.</td>
</tr>
<tr>
<td>13 Term Maintenance of Rushere-Kazo-Ibanda road (73 Km)</td>
<td>Quality assurance has been enhanced and inconsistencies are now avoided as much as possible.</td>
<td>UNRA should enhance quality control during preparation contract documents.</td>
</tr>
</tbody>
</table>
| Inconsistencies in contract documents; for example, the length of the project road, quoting wrong titles of documents, inclusion of unnecessary specifications, etc | Average widths of road over 100m intervals are used for certification of the works. However, remeasurements are being done to confirm the road width. | - Payments should be based on actual measurements of works executed in order to avoid any possible overpayments.  
- Road width should be remeasured |
<p>| Inaccurate certified measurements for width of road; a width of 10m is used for payment purposes but the actual width of road worked on differs from section to section. This may lead to overpayments | The contractor managed to mobilise additional equipment and has executed the works. | UNRA should follow up and ensure that contractor mobilises appropriately for the two contracts. |
| Contractor has one set of equipment and personnel for the two term maintenance contracts. This makes it difficult for the contractor to work at the two contracts at the same time. | Further road improvements like installation of culverts will be instructed in subsequent cycles if deemed necessary. | UNRA should follow up the matter with the contractor to ensure that the defects are corrected. |
| Inaccurate drain levels in a number of sections; Inadequate pipe cover in several sections; Several more sections require culverts. |                                                                                      |                                                   |
| 14 Repairs and Road Marking of Kampala – Entebbe Road (37km).                |                                                                                      |                                                   |
| There were delays in signing of the contract, which was done two months after issuing the bid acceptance letter to the contractor. This could have led to delays in executing the works and escalation of cost. | Overall delays have been due to delay of submission and verification of performance bonds and clearance by Solicitor General. | It is recommended that UNRA should inform other parties involved in contract clearance of the effects of delaying the process. |
| The drawings in the contract are of poor quality and the words/letters        | Clear and specific drawings are now being used.                                      | UNRA should maintain use of proper drawings.        |</p>
<table>
<thead>
<tr>
<th><strong>Key findings</strong></th>
<th><strong>Management Response</strong></th>
<th><strong>Audit Remarks/Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>are illegible</td>
<td>issued.</td>
<td>UNRA should consider use of longer lasting and high quality paints at such locations.</td>
</tr>
<tr>
<td>At some locations where there is high interaction between traffic and pedestrians, the road marking is fading much faster. This may be an indication that a low quality paint was used</td>
<td>Road marking is a recurrent activity that should be executed every two years. Another contractor has been procured to renew the road marking.</td>
<td></td>
</tr>
<tr>
<td>Overpayments estimated at Shs.9,036,059 were made for certain items of work like pothole patching and re-construction of carriageway. There is a need to re-measure the completed works so as to obtain the accurate quantities of works done.</td>
<td>The Station Engineer Kampala and the contractor have been requested to re-measure.</td>
<td>UNRA should follow up with the measurements and recover the overpayment. (Shs.9,036,059)</td>
</tr>
<tr>
<td><strong>15 Urgent Repairs of Kalagi-Kayunga Road (34km)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contradictions were noted between BoQs and specifications; for example, spray rates for bitumen differ in special specs and the BoQ.</td>
<td>There is better quality assurance now during bid and contract preparation.</td>
<td>UNRA should enhance quality assurance in preparation of bidding documents.</td>
</tr>
<tr>
<td>The drawings in the contract were of poor quality and the words/letters were illegible.</td>
<td>Clear and specific drawings are now being issued.</td>
<td>UNRA should maintain use of proper drawings.</td>
</tr>
<tr>
<td>High variations of the quantities for work items were observed indicating weak/poor design; for example, quantities for clearing of shoulders and side drains item exceeded the original amounts by 3,500%.</td>
<td>These were urgent works on a very aged road where failures were rapid and could not be ascertained at the time of planning.</td>
<td>UNRA management should ensure that accurate estimations are made at the time of planning.</td>
</tr>
<tr>
<td>Some of the reconstructed sections of the road were observed to be uneven and lacked adequate camber/super-elevation to allow the water flow properly. Ideally the base course should correct the unevenness and should be constructed to standard cross sections with adequate camber.</td>
<td>The scope of the reconstructed sections was limited to base course layer. The strength of the underlying layers was not investigated or improved.</td>
<td>UNRA should ensure adherence to standards.</td>
</tr>
<tr>
<td>The gravel used for base course was not of specified standard; the tests done on the gravel layers showed low values of CBR (58% compared to the specified 70%).</td>
<td>Gravel material used was tested in M/s Teclab Ltd and the test results indicated that the material met the requirements of the specifications.</td>
<td>UNRA should enhance supervision of works and ensure that materials used meet the required specifications.</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/ Recommendations</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The quality of drawings in the contract documents is poor and the words cannot be read which can lead to misinterpretation of drawings and construction of in appropriate structures.</td>
<td>The quality of typical drawings has improved in all UNRA bidding and contract documents.</td>
<td>UNRA should maintain use of proper drawings.</td>
</tr>
<tr>
<td>The gravel thickness applied on most culverts was less than the required thickness causing most of them to break.</td>
<td>Culvert cover to be increased and broken culverts replaced by the contractor at no extra cost to the Client.</td>
<td>Response not satisfactory. The supervising consultant should be held responsible for approving payments for substandard work for example by supervising the replacement exercise at his own cost.</td>
</tr>
<tr>
<td>The gravel on embankments mostly above culverts was seen to be eroding; the eroding gravel resulted in siltation of culverts. The embankments were not properly compacted and grassed to control erosion.</td>
<td>Eroded embankments to be reinstated by contractor who has promised to execute the works.</td>
<td>Response not satisfactory. Responsible supervising consultant should be held responsible for approval of payment of substandard work for example by supervising the replacement exercise at his own cost. UNRA to follow up.</td>
</tr>
<tr>
<td>Most culverts were seen to be silted; among the causes is inappropriate gradients and lack of timely maintenance.</td>
<td>Silted culverts were desilted by LBCs</td>
<td>UNRA should intensify supervision of LBCs so that cases of siltation of culverts are minimised.</td>
</tr>
<tr>
<td>The gravel thickness in most sections was found to be less than the specified and paid for. At certain sections the thickness was 45mm against specified 150mm. Supervising consultants should desist from certification of payment of substandard works.</td>
<td>The contractor has been instructed to rectify the defective works and he has promised to comply accordingly.</td>
<td>The supervising consultant should supervise the exercise at no extra cost to the client for failure to supervise the works properly. UNRA to follow up.</td>
</tr>
<tr>
<td>There were cases of paid culverts which had not been installed.</td>
<td>Corrections for the culvert quantities were included in IPC No. 6.</td>
<td>Although the recoveries were made, Payment of works which have not been done should be avoided.</td>
</tr>
<tr>
<td><strong>17. Backlog Road Maintenance Program (BRMP) Package No. 1 (Lira roads)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The contract duration expired on 21st October 2010; only 65.2% of the works had been completed but 98% of the contract sum had been</td>
<td>The amount spent includes VoP and to-date, 80% has been executed. Extension of time of 150</td>
<td>Close follow up of contractor's performance by supervisor is necessary for ensuring that works.</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>spent.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The price adjustment formula was introduced after award of contract contrary to PPDA and EU guidelines and the EDF PRAG. While RAFU/UNRA sought clearance from PPDA to use EU contract guidelines, which require no VOP formula for contracts with duration of 18months and below. This principle was not followed in the introduction of the formula. UNRA management was advised that where cases of delays to award the contracts occur, the rates should be adjusted with appropriate factors up to the time of award of the contract other than irregularly introducing VOP formula that is not applicable to contracts with duration of up to 18 months. This resulted into payment of shs.5,450,603,524.</td>
<td>Introduction of the price adjustment was done and approved by all parties. The amount (Shs5,450,603,524) wrongly paid using VOP formula should be recovered. The rates have been adjusted to cater for any increases due to inflation from time of bid opening to the time the contract was eventually awarded rather than introducing VOPs.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The application of the VOP formula was not done in accordance with what was stated at its introduction, resulting into a price variation of 62% which is not comparable to the actual inflation of the country. VoP was not calculated monthly based on the actual work done in a particular period as it is required, for example, works done in April 2009, should were wrongly varied using indices of November 2009.</td>
<td>Application of the price adjustment is under review to be segregated for actual work done in each month. UNRA to follow up the matter and recover the amount. (Shs.5,450,603,524)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Though the specified and paid content of lime was 4%, tested samples indicated that the lime content ranged from 0.5-7.9%. This is a sign of low application of lime compared to what was specified and lack quality control by the consultant.</td>
<td>Results obtained have a high CBR and UCS indicating. UNRA should emphasize adherence to specifications. In cases where the lime content was low the contractor should be paid for what he actually applied.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some other items of work were paid using rates of different activities. Clearing and grabbing was paid at the rate quoted for river training leading to an over payment of Shs.</td>
<td>Correct rates are being applied to the relevant activities after an addendum was made with an appropriate rate. There was no need for an addendum since the contractor had quoted a rate for executing this item of work in the</td>
<td></td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>982,264,406 to the contractor.</td>
<td></td>
<td>contract. Such mistakes should be avoided as it may be interpreted as a way of lending money to contractors.</td>
</tr>
<tr>
<td>Overpayments to the tune of shs.3,185,181,641 were made to the contractor as shown below:- Clearing and grabbing, wrong application of rates, shs.982,264,406, Incorrect measurements: shoulder widths, shs.452,603,340, Application of slurry material, shs.1,709,497,050, Entry of wrong measurements in the summary sheets, shs.40,816,845</td>
<td>Shoulder quantities are being reviewed to reflect the actual width on the ground.</td>
<td>UNRA should ensure that recoveries are made from the contractor. (Shs.3,185,181,641).</td>
</tr>
</tbody>
</table>

18 Backlog Road Maintenance Program (BRMP) Package No. 2

<table>
<thead>
<tr>
<th>Jinja Rd sections, Bombo rd sections</th>
<th>The contract amount is expected to increase by 10.36%</th>
<th>Final account will give the actual increment. This is just an estimate.</th>
<th>Consultant should control the contract costs to minimise the increase in contract amount.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The change from 600mm to 1200mm cover slabs to side drains whose unit rate is three times the original is not cost effective.</td>
<td>The 1200mm slabs are reinforced to cater for vehicular traffic</td>
<td>Consultant should always consider the effect of changing designs especially when there are cost implications.</td>
<td></td>
</tr>
<tr>
<td>Item 48.09(c) for patching of potholes using asphalt concrete was under estimated (1000 times less) in the BOQ due to miscalculation.</td>
<td>The estimate of the quantity for pothole patching was erroneously done</td>
<td>UNRA should enhance quality assurance in preparation of bidding documents.</td>
<td></td>
</tr>
<tr>
<td>The contract period expired in January 2010 and the contractor had not been granted extension of time. No liquidated damages were charged. The delays in completion of works led to increased escalation of other costs, such as supervision by the Engineer and his team estimated at shs. 1.08 billion The contractor had many other projects running at the same time.</td>
<td>It is the prerogative of the Contracting Authority to charge liquidated damages</td>
<td>It is a contractual right for the client to charge the liquidated damages when the contractor fails to complete the works on time. Not charging liquidated damages is a direct loss to the client. UNRA should enforce the contractual clause immediately. Liquidated damages should have been charged to offset some of the costs of maintaining the Engineer.</td>
<td></td>
</tr>
</tbody>
</table>

<p>| The overhead pedestrian crossing bridge in Bweyogerere intended to | UNRA is developing a safety management | UNRA to follow up implementation of the |</p>
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ease road crossing by pedestrians is hardly being utilised.</td>
<td>system to cover the entire national roads network and this will include sensitising people on how useful such facilities are.</td>
<td>undertaking. Extra measures including barriers should be put in place to enforce use of the facility.</td>
</tr>
</tbody>
</table>

19 **Backlog Roads Maintenance Programme (BRMP) Package No. 3 Roads (Masaka-Kyotera-38.3km and Nyendo-Villa Maria- 10.4km)**

<table>
<thead>
<tr>
<th></th>
<th>The Contractor defied the RE’s instructions to re do the 6.4Km stripped section and preferred to pursue the matter with the Director of Operations.</th>
<th>The section was repaired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of some IPCs was delayed which may attract claims from the contractor. For example the IPC that was submitted in January 2010 had not been paid by July 2010. The subsequent IPC No.2 was submitted in March 2010 and paid in May 2010.</td>
<td>The 1st IPC was delayed awaiting a resolution on where payments had to be made. No claims have been made by the Contractor.</td>
<td>Response not satisfactory. Contractors who defy the Consultants (Client representative) should be penalised for such behaviours.</td>
</tr>
<tr>
<td>Delay in approval of claims for which the Contractor may make financial claims. For example, the supervising Engineer gave his recommendations on the contractor’s claim for EOT on 23rd December 2009; the contract management specialist submitted his report on the same issue on 14th January 2010. However, until August 2010, UNRA had not given its position on the EOT.</td>
<td>UNRA tries to make timely decisions. However due to inadequate staffing capacity some delays in decision making occur. UNRA is increasing staffing levels to address the problem.</td>
<td>UNRA should devise a system to make such decisions timely.</td>
</tr>
<tr>
<td>The Supervising Engineer agreed in two consecutive monthly meetings to meet with the Contractor to resolve outstanding administrative orders for variations but the contractor refused attend the scheduled meetings without any reason or apologies. This is a sign of disrespect and the Contractor may in future use the same unresolved matters to make additional claims.</td>
<td>The Contractor attended all site meetings and all issues have been addressed.</td>
<td>The response is not satisfactory. The fact the consultant reported the matter to the client; UNRA should have intervened and instructed the contractor to attend the meeting so that contractual matters could be resolved timely.</td>
</tr>
<tr>
<td>The cover letter to the IPC No.4, indicated payment for item 14.07 (b) that is Maintain Engineer’s Survey Equipment”, was removed because the Contractor had not supplied the survey equipment. However the</td>
<td>Currently the RE is verifying all quantities to reflect actual payments that are due to the Contractor.</td>
<td>UNRA should follow up the matter and recover the money paid to the contractor for this item.</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>payment for the item was still included in the certificate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In some IPCs the contractor was paid for activities not done.</td>
<td>Currently the RE is verifying all quantities to reflect actual payments that are due to the Contractor.</td>
<td></td>
</tr>
<tr>
<td>In some cases, the quantities paid for some items in the IPCs were more than actual quantities measured. For example Item 22.03 (concrete pipe culverts) was measured to be 18m and 47m for diameters 600mm and 900mm but payment was for 55m and 51m respectively resulting in over payments of Shs.31,294,700</td>
<td>All overpayments made to the contractor due to such discrepancies in actual work done Vs quantities in the BoQ should be recovered from the contractor.</td>
<td></td>
</tr>
<tr>
<td>The road had unsightly slurry deposits for a distance of about 600m. The deposits were cumulatively dropped by the contractor’s truck in the process of delivering slurry to site. This is a symptom of negligence to environmental concerns.</td>
<td>The supervising consultant and UNRA should ensure that the Contractor observes the environmental issues and care is taken in delivery of the bituminous materials. The Contractor should be instructed to clear the site that has been affected.</td>
<td></td>
</tr>
<tr>
<td>Stone pitching works were poorly done at some sections of the road. The lined drain was at a higher level than the road shoulder; this will not allow water to drain off the road.</td>
<td>All defective works shall be rectified before hand over to UNRA.</td>
<td>UNRA and the supervising consultant to follow up the rectification of defective works. However supervision of works should be enhanced to ensure good quality of works and consultants should not approve payment of defective works.</td>
</tr>
</tbody>
</table>
| The quantities paid for in certain items in the IPCs were more than measured quantities resulting in overpayments of at least shs.43,872,960 as follows Concrete culverts, shs.40,312,700, Double surface seal, shs.2,255,000, Application of slurry seal, 1,305,260 | All overpayments made to the contractor arising from the discrepancies should be recovered.
(Shs.43,872,960) | |

20 **Backlog Road Maintenance Programme (BRMP), Package No. 4; Mbarara - Ishaka Road (58.8Km)**

The price adjustment formula was introduced after award of contract Introduction of the price adjustment was done and The amount (Shs1,747,156,179)
### Key findings

<table>
<thead>
<tr>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>approved by all parties</td>
</tr>
</tbody>
</table>

contrary to PPDA and EU guidelines and the EDF PRAG. While RAFU/UNRA sought clearance from PPDA to use EU contract guidelines, which require no VOP formula for contracts with duration of 18 months and below. This principle was not followed in the introduction of the formula. UNRA management was advised that where cases of delays to award the contracts occur, the rates should be adjusted with appropriate factors up to the time of award other than irregularly introducing VOP formula that is not applicable to contracts with duration of up to 18 months. The application of a VOP formula in this contract resulted into payment of shs.1,747,156,179.

Wrongly paid using VOP formula should be recovered and rates be adjusted to cater for any increase in rates at the time the contract was eventually awarded.

Bleeding and stripping was observed on some completed sections of the road. Starting at CH 13 + 500.

All defective work shall be rectified

UNRA and the supervising consultant to follow up the matter and ensure that defects are corrected.

Measurements of randomly selected items were done and discrepancies were noted in certified measurements and actual works done. The discrepancies appear minor on small sections of work but have a significant cumulative effect on the overall cost of the project.

The final account shall reflect the actual quantities against the payments and any over payments shall be recovered

All overpayments made to the contractor due to such discrepancies in actual work done Vs quantities in the BoQ should be recovered from the contractor.

### 21 Backlog Road Maintenance Programme (BRMP), Package No. 5 Mbarara – Ntungamo Rd

The Contract includes pay items like provision (construction and supply) of houses and offices of the engineer which by nature of the contract, could not be achieved in the provided contract duration of 18 months.

Construction of houses on a project with a short duration shall be discouraged in future.

UNRA to implement the undertaking and avoid inclusion of such unnecessary items that eventually make the project costs high.

Practical training and payment to Engineers who are not employees of UNRA was included in this contract. Some of the ‘trainees’ had up to seven years of field experience and had worked with other consultancy firms. The selection of these trainees was not clear.

UNRA shall in future develop a system for training.

The field training of engineers is a commendable action but the selection of the trainees need to be transparent and should ideally be to fresh graduate engineers.

The project was not completed on the scheduled time resulting in extra

The supervisor was looking after all the

The Contractor’s performance should have
<table>
<thead>
<tr>
<th><strong>Key findings</strong></th>
<th><strong>Management Response</strong></th>
<th><strong>Audit Remarks/ Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>project cost for maintaining the supervising consultant on site.</td>
<td>Packages whose commencement was at different times as such there was no extra cost for maintaining him on site.</td>
<td>been monitored more closely by both the Consultant and the Client and action to expedite the works initiated timely.</td>
</tr>
<tr>
<td>The Contractor with the approval of the Engineer established his site office for the three projects on the premises of Ministry of Works and yet the Contractor was paid for site establishment. There was no receipt of any moneys in the Ministry accruing from occupation of these premises.</td>
<td>It is the responsibility of the Contractor to find site establishment. UNRA has no knowledge of any arrangements with the Ministry of Works on the said premises.</td>
<td>UNRA being a government agency under the Ministry of Works should have known the arrangement for the Contractor to use the Ministry's premises. The equivalent for rent of these premises should be computed and deducted from the final payment to the contractor.</td>
</tr>
<tr>
<td>Chemical stabilisation was used on temporary works where natural gravel of good CRR would have sufficed.</td>
<td>Chemical stabilisation was adopted to hold the material in place due to the prevailing climatic conditions (rains) to enable the heavy traffic traversing the road with no hurdles.</td>
<td>Such un economical and unnecessary expenditures should be avoided in future.</td>
</tr>
<tr>
<td>Localised failures were observed on many sections of the completed works at various sections of the road</td>
<td>All defects due to the Contractor shall be fixed prior to handing over.</td>
<td>UNRA and the supervising consultant to follow up and ensure that the defects are rectified.</td>
</tr>
</tbody>
</table>

### 22. Backlog Road Maintenance Programme (BRMP), Package No. 6
**Ntugamo – Kabale Katuna Rd**

The special specifications of the contract include work item that were not meant to be done under this contract, for example DBM base course. Inclusion of unnecessary information in the bidding/contract documents confuse bidders.

<table>
<thead>
<tr>
<th><strong>Key findings</strong></th>
<th><strong>Management Response</strong></th>
<th><strong>Audit Remarks/ Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The drawings provided in the contract documents were not reflective of the actual works to be done.</td>
<td>UNRA is moving towards improvement in documentation through increased staffing to ensure quality control.</td>
<td>It is recommended that Drawings should reflect the works that are to be done under a particular contract.</td>
</tr>
</tbody>
</table>

The price adjustment formula was introduced during contract negotiation which is not supported by the bid documents, PPDA and EU guidelines. This resulted into extra payments of shs.1,605,599,304

<table>
<thead>
<tr>
<th><strong>Key findings</strong></th>
<th><strong>Management Response</strong></th>
<th><strong>Audit Remarks/ Recommendations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The price adjustment formula was introduced during contract negotiation which is not supported by the bid documents, PPDA and EU guidelines. This resulted into extra payments of shs.1,605,599,304</td>
<td>Introduction of the price adjustment was done and approved by all parties</td>
<td>The amount of shs.1.66 billion wrongly paid using VOP formula should be recovered and rates be adjusted to cater for any increase in rates at the</td>
</tr>
<tr>
<td>Key findings</td>
<td>Management Response</td>
<td>Audit Remarks/Recommendations</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>(16.5% of the contract price).</td>
<td></td>
<td>time of bid submission to the time the contract was eventually awarded.</td>
</tr>
<tr>
<td>In some progress reports, progress of work was reported as zero (0) percent yet a number of works items had been executed near to completion. Inconsistencies in progress reports show lack paying attention to details included, which may mislead the users.</td>
<td>The Resident Engineer has been urged to ensure representative reports are produced.</td>
<td>The consultants should be directed to improve on quality of the reports and to be consistent on the reported issues.</td>
</tr>
<tr>
<td>Most of the contractor’s staff included in the contractor’s bid were not involved on ground in the implementation of works.</td>
<td>Staff on site should be those approved in the contract agreement and if not, those present should be replacements of equal or better qualification as the situation might have demanded.</td>
<td>UNRA should be stricter on ensuring that originally evaluated staff are deployed, as one of the criteria for selection of the contractor is the staff to be deployed.</td>
</tr>
<tr>
<td>Payment was approved and effected for works not executed, for example, stone pitching on a section 579m long (between Ch.35+300 and 35+879 on both sides of the road had not been done but paid for Shs.7.7million.</td>
<td>All payments shall be reconciled to reflect the actual situation in the subsequent IPC.</td>
<td>The supervisor should exercise more control over measurement of works and preparation of IPCs to avoid such undue payments. UNRA to follow up re-measurement and recover all such payments (Shs.7.7 million)</td>
</tr>
<tr>
<td>Despite inclusion and payment of an Occupational Health and Safety Officer, the matters to do with OHS were not adequately addressed.</td>
<td>There is all effort to ensure safety on site and the payments that were made were commensurate to the services provided and approved by the supervisor on site. The quality of the reports could have not revealed what was done but in future, there shall be improved quality to clearly show all information required.</td>
<td>UNRA to follow up implementation of the undertaking and ensure that OHS matters in all projects are seriously implemented.</td>
</tr>
</tbody>
</table>

23 Periodic Maintenance of Muzizi-Kagadi & Muzizi-Katooke (36Km)

Inconsistencies in contract documents, for example, specification of bitumen works while the works are of gravel standards, item of gabions placed under the

Inconsistencies in contract documents were noted for future corrective action; | UNRA should enhance quality assurance in preparation of documents. |
<table>
<thead>
<tr>
<th>Key findings</th>
<th>Management Response</th>
<th>Audit Remarks/ Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>wrong bill item etc. Inclusion of unnecessary information in the bidding/contract documents could confuse bidders.</td>
<td>The Contractor ultimately completed the works and was charged liquidated damages</td>
<td>Delay in completion of works is always costly to the Client and close follow up of Contractor’s performance is necessary.</td>
</tr>
<tr>
<td>Slow progress by the Contractor, by July 2010 the time progress was 200% while works progress was 92%;</td>
<td>There were no delayed payments to the Contractor.</td>
<td>UNRA should timely make payments to the contractors to avoid unnecessary costs in possible interest charges.</td>
</tr>
<tr>
<td>Delayed payments to the Contractor; Contractor complained on delay of payment of certificates Nos. 1 and 2. Delays could cause cash flow problems and attract interest claims.</td>
<td>UNRA should enhance quality assurance in preparation of documents.</td>
<td></td>
</tr>
<tr>
<td>Inconsistencies in contract documents, e.g. specification of bitumen works and drawings showing a typical paved road while the works are of gravel standards, etc. Inclusion of unnecessary information in the bidding/contract documents confuse bidders and should be avoided.</td>
<td>Standard maintenance specifications are for both paved and unpaved roads</td>
<td>UNRA should enhance quality assurance in preparation of documents.</td>
</tr>
<tr>
<td>Contradicting progress reporting; Reports prepared by Consultant and Client have differing information.</td>
<td>Progress report from Consultant is contractual</td>
<td>It is important that the Client is fully aware of progress. Where the reports contradict, the report by Client will always be taken as the most correct one.</td>
</tr>
<tr>
<td>Missing Compaction tests results; it is important that quality of works is monitored through quality control test results.</td>
<td>Compaction test results available</td>
<td>The test results should always be appended in the progress reports for ease of monitoring.</td>
</tr>
<tr>
<td>Narrowing of the carriageway due to siltation of the side drains in some sections; Washed-away road edges and overgrowth bush on drains and verges;</td>
<td>Siltation, washed-away road edges and overgrowth bush on drains and verges removed by LBCs</td>
<td>UNRA should carry out timely routine maintenance on the road.</td>
</tr>
<tr>
<td>Disjointing and settlement of some culverts; culvert at Ch. 41+100 was totally silted and submerged in silt with a depression in the middle due to differential settlement.</td>
<td>Culverts defects to be rectified by contractor</td>
<td>UNRA should follow up and ensure that the defects are rectified.</td>
</tr>
</tbody>
</table>

24 Periodic Maintenance of Moyo-Obongi Rd.

Inconsistencies in contract documents, e.g. specification of bitumen works and drawings showing a typical paved road while the works are of gravel standards, etc. Inclusion of unnecessary information in the bidding/contract documents confuse bidders and should be avoided.
33.0  NATIONAL ENVIRONMENTAL MANAGEMENT AUTHORITY (NEMA)

33.1  National Environment Management Authority (NEMA) AND EMCBP II

IDA CREDIT NO.3477 UG

33.1.1 Annual performance

a)  Budgetary performance

During the year under review, it was noted that the approved budget for the entity amounted to Shs.16,360,000,000, with Shs.5,860,000,000 meant to be received from GOU and Shs.10,500,000,000 from the EMCBP II project, funded by IDA. However, by the end of the year, only Shs.6,943,452,516 had been received leading to a shortfall of Shs.9,416,547,484 as shown in the table below:

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Budget (Shs)</th>
<th>Actual receipts (shs)</th>
<th>Shortfall (Shs)</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOU</td>
<td>5,860,000,000</td>
<td>5,373,660,500</td>
<td>486,339,500</td>
<td>8.30</td>
</tr>
<tr>
<td>EMCBP II-AF</td>
<td>10,500,000,000</td>
<td>1,569,792,016</td>
<td>8,930,207,984</td>
<td>85.05</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>16,360,000,000</strong></td>
<td><strong>6,943,452,516</strong></td>
<td><strong>9,416,547,484</strong></td>
<td></td>
</tr>
</tbody>
</table>

Failure to obtain all the anticipated revenues implied that the entity could not fully under take all the planned activities. This can lead to failure to attain the intended objectives.

b)  Assessment of delivery of outputs

It was noted that several planned activities were either not undertaken or not completed by the end of the year under review. For example the following activities were partially implemented by 30th June 2010:-
<table>
<thead>
<tr>
<th>Activity description</th>
<th>Activity indicator</th>
<th>Planned</th>
<th>Achieved</th>
<th>Performance rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to Kampala Metropolitan Police (training, funding, tooling and equipping)</td>
<td>Environment Desk in Uganda Police Force supported</td>
<td>Operational support to Environment Desk at Uganda Police HQs</td>
<td>Environment Desk at Police HQs supported in compliance/enforcement activities</td>
<td>50%</td>
</tr>
<tr>
<td>Public disclosure of facilities compliance</td>
<td>No. of facilities disclosed</td>
<td>Assessment and publication/ Disclosure of facility compliance levels</td>
<td>Lists of key environmental polluters and degraders published in the press</td>
<td>45%</td>
</tr>
<tr>
<td>Printing of 3 regulations on air quality, vibrations and waste management.</td>
<td>Number printed</td>
<td>3 Regulations</td>
<td>Nil</td>
<td>0%</td>
</tr>
<tr>
<td>Protection of Green Belts in Urban areas in Mbale, Kampala and Bushenyi towns</td>
<td>Number of greenbelts protected</td>
<td>Protection of 3 greenbelts in Mbale, Kampala and Bushenyi Urban Authorities</td>
<td>The 3 Urban Authorities have been consulted Ground leveling and landscaping commenced in Bushenyi-Ishaka Town</td>
<td>40%</td>
</tr>
<tr>
<td>Meetings of Environmental Practitioners Committee</td>
<td>Number of meetings held.</td>
<td>8 meetings</td>
<td>4 meetings held</td>
<td>50%</td>
</tr>
<tr>
<td>Training of Environmental Practitioners</td>
<td>Number of Practitioners trained</td>
<td>81 Practitioners</td>
<td>Nil</td>
<td>0%</td>
</tr>
<tr>
<td>Activity</td>
<td>Outcome 1</td>
<td>Outcome 2</td>
<td>Outcome 3</td>
<td>Outcome 4</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Additional equipment for the first 9 sites (9 skip loaders and 90 skips)</td>
<td>Number of skip loaders and skips supplied</td>
<td>Procurement and delivery of 9 skip loaders and 90 skips</td>
<td>Contract awarded awaiting clearance from solicitor general</td>
<td>80%</td>
</tr>
<tr>
<td>Organise school competitions on Environment Education (EE)</td>
<td>School EE competition conducted</td>
<td>4</td>
<td>1</td>
<td>25%</td>
</tr>
<tr>
<td>Commence the review of the National Environment Management Policy</td>
<td>Review process commenced</td>
<td>Initial processes commenced including TORs, Stakeholder review of TORs</td>
<td>Terms of Reference developed</td>
<td>50%</td>
</tr>
<tr>
<td>Organise national multimedia strategic environmental education program</td>
<td>National multimedia strategic environmental education program conducted</td>
<td>Organize national multimedia strategic environmental education program</td>
<td>One media program organized for the chief editors</td>
<td>60%</td>
</tr>
<tr>
<td>Establish best practices in schools through surveys/documentation and demo projects</td>
<td>Wood lots established in schools</td>
<td>22</td>
<td>11</td>
<td>50%</td>
</tr>
<tr>
<td>Conduct Annual Environment Officers’ review meeting</td>
<td>Annual EOs meeting conducted</td>
<td>1</td>
<td>Nil</td>
<td>0%</td>
</tr>
<tr>
<td>Conduct Regional Environment Officers’ review meetings</td>
<td>Regional EOs meetings conducted</td>
<td>3</td>
<td>Nil</td>
<td>0%</td>
</tr>
</tbody>
</table>

Management was advised to liaise with the Ministry of Finance, Planning and Economic Development as well as the IDA, to ensure a timely release of funds to the entity to enable them undertake all planned activities in future.
In his response, the Accounting Officer explained that the funds released by GOU to NEMA were less than the budgeted funds, and this affected implementation of the planned activities under GoU. For EMCBPII – AF, the effective date was delayed by a year to September 9, 2009, due to delays in obtaining the Parliamentary approval.

33.2 **Proceeds From Environmental Levies**

Section 88 of the National Environment Act establishes the National Environment Fund whose sources of funds shall consist among others, all fees charged under the Act. The same Act gives power to the Minister of Finance to levy taxes to deter bad environmental behavior or practices that lead to depletion of environmental resources. Accordingly all imports of second hand vehicles and polythene materials attract a tax on importation, which is collected by Uganda Revenue Authority. However, the environmental taxes collected are not remitted to the NEF account as required by the Act but they are remitted to the Consolidated fund.

I advised management to liaise with the Ministry of Finance, Planning and Economic Development, over the matter.

33.3 **Environmental Pollution**

A review of the NEMA periodic reports indicates that environmental pollution and degradation is still rampant in the urban areas. The worst affected area is the central region where there is immense discharge of industrial waste into the channels that ultimately feed into Lake Victoria. Several environmental safety requirements are not met by the various companies (both private and government owned) during the discharge of industrial waste.

A case in point is the direct discharge of untreated waste by M/s Phenix logistics Uganda limited into the Nakivubo channel. The company has persistently discharged all its waste directly into the Channel and therefore into Lake Victoria,
despite the fact that NEMA management has had visits and made recommendations to address the situation. Such practices could have adverse effects on the health of the population around the polluted areas as well as the marine life in the lake.

Management explained that NEMA would continue to undertake inspections and audits of the affected facilities as well as sign compliance agreements with all industries and factories found to be violating the law, with the objective of bringing them into compliance, those that will not comply will be closed up.

With regards to M/s Phenix Logistics Uganda Limited, management explained that a compliance agreement had already been signed and although the company had indicated financial constraints to construct an effluent treatment plant, they have been reminded that it is their legal responsibility to treat their effluent to acceptable standards, before discharge in the open environment.

I have advised management about the need for concerted efforts of all responsible bodies to ensure that the companies involved adhere to the laid down laws aimed at mitigating the effects of the waste they produce.

### 34.0 THE ROAD FUND

#### 34.1 Legal Mandate and Functions of the Road Fund

The mandate of the Fund is derived from section 2 of the Road Fund Act, 2008. The fund started its operations during the second half of the financial year 2009/10. The transactions relating to the first half were carried out on behalf of the fund by the Ministry of Finance, Planning and Economic Development.

It was noted that some key enabling Regulations as required under Section 49 of the Road Fund Act including regulations on collection, management and reporting of Road user charges and the Manual for monitoring and evaluation of the operations of the fund, are yet to be developed by the Board and
Management of the Fund. Although the financial procedures regulations draft was approved by the Board, it is yet to be assented to by the Minister.

Delays in preparing and approval of all the enabling regulations may limit the Fund in performance of its functions. I have advised management to expedite the preparation and approval of all the enabling regulations.

34.2 **Financial Principles**

Section 21(3) of the Road Fund Act requires the user charges to be directly remitted to the Fund on a monthly basis. However, it was noted that;

- This provision conflicts with Section 1 of the Uganda Revenue Authority Act, that requires all revenue collected by, or due to and payable to the Authority (URA) under the Act to be credited or be due to the Consolidated Fund. The conflict in the two laws may cause disharmony between the two institutions.

- The budgeting procedures of the Road Fund are subjected to MTEF ceilings set by the Ministry of Finance. Under the provisions of Sections 21 and 31 of the Road Fund Act, the Board and management of the Fund should liaise directly with Uganda Revenue authority to establish how much is collected from the specified sources for proper planning. The current arrangement where all the monies are collected by Uganda Revenue Authority does not allow the Road Fund to establish how much is raised from the specific sources spelt out under Section 21 of the Act. This is likely to limit the activities of the Road Fund.

Although management explained that two bank accounts have been opened with Bank of Uganda for the purpose, no action has been taken by MOFPED, and URA to operationalise this provision.

- The Act creates the Uganda Road Fund as a “Fund” for road maintenance activities whose sources of funding are detailed under section 21 of the Act. It was however noted that the current reporting format is not in conformity with fund accounting. The current formats that are based on financial
statement templates used by the government MDAs are not appropriate for the fund.

In his response, the Accounting Officer explained that a cabinet memo has been drafted and presented to Ministry of Finance Planning and Economic Development for onward submission to cabinet. This memo seeks an amendment of the URA Act recognizing the need to transfer funds directly to URF account in Bank of Uganda.

I have advised management to continue liaising with the Ministry of Finance Planning and Economic Development over the matters noted.

34.3 **Lack of Medium and Long Term Plans**
Section 25 of the Uganda Road Fund Act requires the Fund to prepare three and five year road maintenance plans. It is from such plans that the annual maintenance programmes required under Section 23 of the Act would be prepared by the designated agencies. It was however noted that the Uganda Road Fund lacks three- and five-year road maintenance plans. Lack of these plans may result into designated agencies receiving and expanding road maintenance funds on unplanned activities. Management explained that studies to provide planning data/information for the development of long term plans had commenced and that the medium and long term plans also require data on national and Districts, Urban and Community Access Roads network from Uganda National Authority and Ministry of Works and Transport, which data is still being compiled by the respective bodies.

I advised management to liaise with the other players in the collection of the data and expedite the preparation of the plans.

34.4 **Expenditure on Community Access Roads not Accounted For**
Funds meant for Community Access Roads (CARs) are disbursed by the Road Fund to the Sub counties through the respective districts' bank accounts.
However, it was noted that the Quarterly returns (accountabilities) submitted by the respective districts do not have details to show how the funds are being transferred to the Sub counties for maintenance of these access roads.

The Accountabilities by the Sub Counties for the community Access Roads have not been submitted to the Road Fund and it remains unclear as to whether the indicated activities were implemented.

It was further noted that key documents like bank statements and reconciliations are not included in the accountabilities submitted by the designated agencies, yet these are key in establishing receipt and usage of the funds.

Currently the Road Fund Accounting Policies and Procedures Manual (APPM) document is silent on how funds are to be disbursed, monitored and accounted for by the Agencies. The current practice is that monitoring and evaluation is carried out by adhoc teams comprising of management staff. This arrangement may not achieve much as staff have other schedules to perform. Without proper accountability procedures, the Fund is exposed to risk of disbursed funds to the Sub counties not being used to implement the intended activities.

Management should expedite the process of recruiting the M&E staff to enable effective monitoring of the road maintenance activities in the country.

Management explained that:-

- The guidelines for CARs have been approved by the Board and issued as part of the disbursement of CAR funds. The problem is lack of compliance by agencies and that further disbursement of funds is now pegged to proper accountability by the agencies.
- The recruitment of the M&E Staff will be finalized by 1st April 2011. The M&E Officer has already reported while the Manager is still under selection.
- The Road Fund plans to outsource services for M&E support to enhance its capacity.
34.5 **Releases for Maintenance and Repair of Road Equipment and Plant to Mbarara Regional Workshop**

Records indicate that the Uganda Road Fund released funds to the three Regional Mechanical Workshops of Mbarara, Gulu and Bugembe to cater for maintenance and repair of road equipment and plants. Each Regional workshop budgeted and submitted their separate plans (for preventive maintenance and repairs of road equipment and motor vehicles) to the Road Fund. These plans were funded in the 3rd and 4th quarter releases of the financial year 2009/2010 as shown below:

<table>
<thead>
<tr>
<th>Region</th>
<th>Quarter</th>
<th>Preventive maintenance and repair</th>
<th>Purchase of Fuel</th>
<th>Wages and allowances</th>
<th>Office expenses</th>
<th>Bulk purchase of spares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mbarara</td>
<td>3rd quarter</td>
<td>269,502,416</td>
<td>19,250,172</td>
<td>92,400,828</td>
<td>3,850,034</td>
<td>385,003,450</td>
</tr>
<tr>
<td>Gulu</td>
<td>3rd quarter</td>
<td>60,266,700</td>
<td>14,000,000</td>
<td>45,000,000</td>
<td>4,300,000</td>
<td>-</td>
</tr>
<tr>
<td>Bugembe</td>
<td>3rd quarter</td>
<td>134,426,400</td>
<td>33,000,000</td>
<td>116,000,000</td>
<td>10,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Mbarara</td>
<td>4th quarter</td>
<td>50,000,000</td>
<td>27,000,000</td>
<td>50,000,000</td>
<td>7,000,000</td>
<td>628,423,400</td>
</tr>
<tr>
<td>Gulu</td>
<td>4th quarter</td>
<td>103,747,200</td>
<td>18,000,000</td>
<td>27,000,000</td>
<td>12,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Bugembe</td>
<td>4th quarter</td>
<td>123,391,400</td>
<td>20,000,000</td>
<td>24,838,000</td>
<td>6,600,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>741,334,116</strong></td>
<td><strong>131,250,172</strong></td>
<td><strong>355,238,828</strong></td>
<td><strong>43,750,034</strong></td>
<td><strong>1,013,426,850</strong></td>
</tr>
</tbody>
</table>

However, it was noted that the Regional workshops do not qualify as designated Agencies whose road and maintenance activities should be financed by the Fund as specified under Section 41 of the Uganda Road Fund Act 2008. The financing of repair and maintenance of plant and equipment by the Road Fund should be reviewed to ensure that it complies with the Act.

Management explained that this was done at the Board’s discretion considering that the activities of workshops impact greatly on road maintenance activities of
designated agencies and that this is being reviewed to have the workshops funded under the Ministry of Works and Transport. He also indicated that the Board had decided to fund agencies directly for maintenance of equipment under force on account.

34.6 **Fixed Assets Register (FAR)**

Chapter 21.6.3 of the URF Draft Accounting Policies and Procedures Manual (APPM) states that the asset register should contain asset numbers, date of acquisition, asset description, original cost, accumulated depreciation, depreciation rates, current year depreciation charge, date of sale and location of an asset.

However, it was observed the Secretariat maintains an incomplete Fixed Assets Register showing only the name of item, location and serial number. This weakens control over the assets.

Management explained that most of the assets acquired at the set up stage were procured under the Ministry of Finance Planning and Economic Development, but requests to the Ministry to prepare a handover report on all activities on the startup period including the values of the assets, have not been responded to.

I have advised the Accounting Officer to follow up with the Ministry to have the required information provided.

34.7 **Remittances of PAYE not Supported by URA Receipts**

A total of Shs.97,636,520 was deducted from the staff salaries and Board member’s allowances in respect of Pay As You Earn (PAYE) for remittance to URA. However, no acknowledgement receipts were obtained for the remittances of March and June of Shs.17,752,600 and Shs.34,276,420 respectively. In absence of the receipts, I could not confirm that the funds in question were received by the tax body.
Management explained that since the Road Fund had not been allocated its own Tax Identification Number (TIN) the remittances were credited by URA under MoFPED. They also indicated that URF had registered with URA for a TIN and all future payments will be made under the URF own TIN.

Management is advised to follow up the matter with the Ministry of Finance to identify the receipts in question.

35.0 JUDICIARY

35.1 Discrepancy Between the Bank Statement and the General Ledger Expenditure Account

It was noted that the General ledger reconciliation summary report shows that the expenditure account was overdrawn by Shs.335,993,765 at the end of June 2010. However, Note 20 to the financial statement, shows that this account had a positive balance of Shs.32,836,935.

The Accounting Officer attributed this discrepancy to the fact that a release of shs.368,830,700 meant for Judges salaries for the month of March 2010 was not captured on the IFMS and therefore not credited to the Judiciary Account in Bank of Uganda. Although The Accountant General was informed about this anomaly, no adjustments were made to correct the omission.

It was further noted that the IFMS cash book for the previous year had not been closed at the time of writing this report. I advised that appropriate action should always be taken for all accounting records to be closed off at the year end.

I have advised the accounting officer to follow up the matter with the Accountant General.

35.2 Operational Funds Not Accounted For

It was noted that a total of Shs.59,250,000 deposited on the personal accounts of various Grade I and Grade II Magistrates in respect of Operational Funds
during the year under review remained un accounted for by the time of audit. I did not obtain reasonable assurance that the funds were utilized for the intended purposes.

Delays in submission of accountability can lead to falsification of documents and loss of funds.

I have advised the Accounting Officer to follow up the matter and have the funds accounted for or recovered from the individuals in question.

35.3 **Un receipted Tax Remittances**

It was noted that remittances of PAYE amounting to Shs.14,030,117 recovered from allowances paid to staff were not supported by acknowledgement receipts from URA. In absence of the receipts, I was not able to ascertain whether the funds in question were actually received by the tax body.

The Accounting Officer explained that the matter was being followed up with Treasury and Bank of Uganda.

I advised the accounting officer to ensure that the amount is duly accounted for.

35.4 **Rent Payment Without Tenancy Agreement**

A total of Shs.644,168,387 was paid to a Landlord in respect of rent for office premises for the Court of Appeal. It was observed that the payment was made without a valid tenancy agreement as the one available expired on 30th August 2008. The department has continued to occupy the rented space basing on the old terms.

The Accounting Officer explained that Judiciary has been paying rent without tenancy agreement because the old tenancy agreement is defective in many ways and negotiations with the Landlord for a change in the terms of the
contract were being undertaken although the Landlord seems not to be interested in their occupancy any more.

I advised the Accounting Officer to expedite the process of acquiring alternative office accommodation urgently to avoid legal complications that may result into a financial loss to government.

35.5 **Staff Performance Appraisal for Judges**

Section 3 of Chapter 1 of Government of Uganda standing orders A-e, requires all officers holding established posts both pensionable and non-pensionable regardless of the rank to undergo performance appraisal annually. It was however, noted that all Judges do not undergo performance appraisal. This contravenes the Regulations currently in force and makes assessment of their performance difficult. In absence of a functioning appraisal system for the judges, the reduction of the backlog of cases by the Judiciary may not be achieved as planned.

The Accounting Officer explained that the core values of Judicial independence enables Judicial officers perform their judicial function without interference from any person or authority and that it is within this context that an appraisal system was not undertaken by the judges. She however also noted that in the 13th Annual Judges Conference, in January 2011, judges resolved to embrace the performance appraisal system and accordingly the process of procuring a consultant to develop the appropriate appraisal instrument had been initiated.

I have advised the Accounting Officer to expedite this.

35.6 **Judges not on the Government Computerized Payroll**

The computerized payroll system was introduced by Government to minimize financial loss and other inefficiencies in the government salary payment systems. The Judiciary has however continued to pay Judges outside the government computerized payroll system over the years. Although this matter has been
raised in my previous audit and promise made by the Accounting Officer to rectify the situation, no progress has been made on the matter

I advised the Accounting Officer to continue pursuing the matter with the responsible ministries of Public Service and Finance, Planning and Economic Development.

35.7 **Benefits for Retiring Judges**
The Government made a policy decision for judges to retire with their rights, terms and conditions which they enjoyed while in active service in order to grant them more security. It was observed that although this was to be incorporated into law, little progress has been made. As a result judges have been allowed to retire with their official vehicles without an enabling law. I have advised the Accounting Officer to continue liaising with the responsible Government authority to speed up the enactment/amendment of the law.

35.8 **Land Titles**
It was noted that Judiciary does not have Land titles for the 34 newly built Courts across the country. This puts such buildings at risk, as they can be claimed by unscrupulous individuals.

I advised the Accounting Officer to ensure that they obtain land titles for the land in question without further delay.

The Accounting Officer explained that the process of obtaining the land titles and lease offers has started and all the land has been fenced off to safeguard it from any encroachers.

I advised the Accounting Officer to ensure that they obtain land titles for the land in question without further delay.
35.9 **Vacant Posts**
The Judiciary Department has an approved establishment of 1,570 staff. However, at the time of audit, only 1,309 posts were filled leaving 261 posts vacant. It was further noted that, some High Court Circuits of Mbarara, Mbale, Nakawa, Gulu, and Fort portal, cover much wider jurisdictions but have only one resident Judge to handle the case load. This may explain the ever increasing back log of cases in the Judiciary.

The Accounting Officer explained that for Judicial officers, the vacancies were advertised through the judicial service commission and unfortunately there were no suitable candidates at that time. They were re advertised and some key posts have now been filled.

I advised the Accounting Officer to liaise with the Judicial Service Commission and the Ministry of Public Service over the matter.

35.10 **Lack of Office Space**
The Judiciary Department is facing a problem of office space especially at the High Court headquarters and other subordinate courts. At the headquarters, there are no chambers for visiting judicial officers, no registry space and office space for the Registrar High Court. It was further noted that, most of the subordinate courts are operating in rented premises. Staff privacy and effectiveness may be greatly affected. Management should ensure that the matter is addressed henceforth.

The Accounting Officer explained that, in 2008, the Ministry of Finance gave a Financial certificate of shs.14.5b for the construction of Appellate Courts but unfortunately these funds have not yet been availed to the Judiciary.
35.11 **Lack of a Risk Management Strategy**

The Judiciary does not have any comprehensive risk management strategy that identifies risks that may affect achievement of its objectives. Without such a strategy, Management may not respond appropriately to the challenges of implementing the planned activities.

The Accounting Officer explained that under the comprehensive Strategic Investment Plan (SIP II), the Justice, Law & Order commissioned a SWOT analysis of the whole sector and will make a comprehensive Risk Management Strategy which will be incorporated in the Strategic Investment Plan III of the JLOS.

I advised that in order for the Judiciary to meet its objectives, there is need for it as an entity to come up with an appropriate comprehensive risk management strategy outlining its risk exposure and the measures to mitigate them.

35.12 **Sironko Court**

An inspection of the above court revealed that a new court building was built in a water logged swampy area. There is no evidence that this land was reclaimed to have soil bearing capacity with a strong foundation. There were no gabions (stones in steel fabric and wire mesh) to demarcate the plot of land and serve as a flood control, which should have been included at the planning stage of construction.

It was also noted that the new building has developed several big cracks in the court hall and all over the verandah. The building has one court room implying that the two magistrates will use it in turns. The two prison cells are too tiny. They may be able to accommodate 5 inmates only at ago. The pit latrine is located about 50 meters away and will be shared with the public.
Additionally, the proposed Magistrates house has very tiny cubicles. It is almost part of the court structure implying that the magistrates will not have privacy.

Although management explained that the Contractor had started correcting the cracks on the floor by August 2010, physical inspection carried out four months later on 25th November, 2010 revealed that repairs had not been done at all and no follow up of the matter had been made.

The Accounting Officer explained that the site for the Court in Sironko was donated by the District Authorities and is highly permeable in a swamplike environment with fine grained organic soil. She also explained that the design of the Court was dictated by the budget of Shs.152 million (taxes exclusive) from the donors. The design included: 1 court hall, 2 chambers, a registry, archives/stores, reception, two small rooms for the cells and 2 rooms for residence of the staff court. Things like fencing, gardening, parking and septic tank were not part of the contract design.

35.13 **Kabale High Court**

- **High Court Chambers**
  The Chambers of the Resident Judge have major cracks in the walls and needs urgent renovation. This problem was reported way back in mid 2005 by the Kabale Chief Magistrate. The contractor was instructed to rectify the defects in 2006 which he did but fresh cracks have since developed. Furthermore, the only public latrine which unfortunately is behind the High Court Chambers, filled up in January 2009 and no efforts were made to address the situation.

- **Exhibit Store**
  The only available exhibit store is a temporary *Mabati* structure used by the Magistrate court and has been broken into from time to time. The store needs to be a permanent and secure building.
The Accounting Officer explained that the extension to Kabale Chief Magistrates Court was done in 2004 and that there was one wall which developed cracks and was rectified in 2006 after the expiry of the defects liability period. She added that three years later, the same wall developed some cracks after which investigations were done in August 2010 which revealed that this wall was built on a previous pit latrine where the soil texture and stability were disturbed and therefore differential settlement had occurred. She further explained that they are currently soliciting for funds to put up a proper storage facility and a High Court building in Kabale and that the construction of a separate new pit latrine was at a tendering stage.

35.14 **Budget Performance**

A review of the ministerial policy statement for the 2010/11 financial year revealed that several planned outputs for the year 2009/10 were not attained by the year end as detailed below:

<table>
<thead>
<tr>
<th>Key Output</th>
<th>Planned outputs</th>
<th>Achievements</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output: 125101 Disposal of Appeals in the Supreme Court</td>
<td>21 Civil Appeals 54 criminal Appeals 14 Constitutional Appeals 3 Constitutional Applications 5 References disposed off.</td>
<td>17 Civil Appeals 28 Criminal Appeals 9 Constitutional Appeals 0 1 reference disposed off</td>
<td>4 Civil Appeals 26 Criminal Appeals 5 Constitutional Appeals - 3 Constitutional Applications 4 References disposed off.</td>
</tr>
<tr>
<td>Output: 125102 Disposal of Appeals and Constitutional matters in the Court of Appeal</td>
<td>50 Civil Appeals 155 Civil Applications 06 Election Petitions 18 Constitutional petitions 08 Constitutional Applications 183 Criminal Appeals 174 criminal Application</td>
<td>47 Civil appeals 36 civil Applications - 11 Constitutional petitions 3 Constitutional Applications 63 Criminal Appeals 9 Criminal Applications</td>
<td>3 civil appeals 119 Civil Applications 06 Election Petitions 7 Constitutional petitions - 5 Constitutional Applications 120 Criminal Appeals 165 Criminal Applications</td>
</tr>
<tr>
<td>Output: 125103 Disposal of Appeals and</td>
<td>18,000 Civil suits 279 Misc. Applications 43 Civil Appeals</td>
<td>656 Civil suits - -</td>
<td>17,344 Civil Suits 279 Misc. Applications 43 Civil Appeals 77 other civil cases</td>
</tr>
</tbody>
</table>
Failure to attain all planned out puts may negatively impact on service delivery.

The Accounting Officer admitted that several planned outputs for the year 2009/2010 were not attained by the year end and attributed this to inadequate financial support to cover court operations (including sessions and inspections), inadequate staffing in terms of Judicial Officers (Judges and Magistrates) as well as delayed release of funds especially from the JLOS for sessions/backlog clearance.

I advised management to ensure that all planned activities are always undertaken as per the approved workplans.

### 36.0 PARLIAMENTARY COMMISSION

#### 36.1 Accountabilities for Expenses on Travel Abroad

Review of expenditure relating to travel abroad for the financial year under review revealed that a total of Shs.4,621,108,256 was spent by the Commission.
to facilitate a number of delegations participating in various conferences, meetings and other activities. Out of this amount, Shs.3,548,633,010 was spent on purchase of air tickets while Shs.1,072,475,246 was in form of per diem.

However, it was noted that the expenditure vouchers lacked relevant supporting accountability documents such as copies of the air ticket/coupons, certificate of attendance and briefing notes. Additionally, according to Rule No.30 of the rules of procedure of the 8th Parliament, it is a requirement that within 21 sitting days of return to Uganda of an officially recognized parliamentary delegation, or a delegation with some members and staff of the house, the head of the delegation or any member acting on his/her behalf shall present a report to the house on the activities of the delegation. However, there is no evidence that any reports were presented and tabled for discussion.

In absence of the accountability and reports, I could not ascertain as to whether the travels were actually undertaken.

I have advised the accounting officer to ensure that proper accountabilities are always submitted for all expenditure on travel abroad.

36.2 **Procurement of Air Tickets**

Records indicate that during the financial year 2009/2010, some members of Parliament and staff of the commission participated in a number of international conferences, meetings, and other activities. Tickets worth Shs.3,548,633,101 were procured for the related travels. However, audit examination revealed the following matters:-

- **Procurement responsibility**
  The protocol office under Public relations department, managed the procurement of all the air tickets contrary to Section 31 of the Public Procurement and Disposal Act which provides that the Procurement and Disposal Unit shall be
responsible for all procurement and disposal activities of the procuring and disposing entity.

- **Requisitioning for purchase of air tickets**
The payment vouchers relating to travel abroad indicated that the recommended requisitioning procedures were not being properly followed. For example in some cases vouchers were not supported by requisition form (PP form 20), while in other cases confirmation of funding by the Accounting Officer, which is the last stage of the requisitioning process was done long after the scheduled travels had occurred. This implies that these procurements were made without being first approved by the Accounting Officer contrary to the procurement regulations.

The Accounting Officer should ensure that, the protocol officer is restricted to performing the role of initiating the procurement process and leave the procurement function to the Procurement and Disposal Unit (PDU) as provided by the law.

In his response, the Accounting Officer explained that management had instructed the PDU to take over the role.

### 36.3 Contract Management

Review of a selected sample of contracts undertaken by the Commission revealed that some of them were not complying with contract management procedures. The following were particularly noted;

- Sections 259 & 260 of the PPDA Regulations require user departments to nominate contract managers, charged with the responsibility of ensuring that the service providers meet all performance or delivery obligations in accordance with the terms and conditions of a contract. Review of the contract files however did not show evidence that these provisions were complied with.
• It was further noted that contract implementation plans were not prepared and contract management records were not maintained as required by Sections 258(3) and 91 of the PPDA Regulations.

Weaknesses in contract management procedures can lead to poor contract performance and time overruns which can be costly to the Commission.

I have advised management to ensure full compliance with the provisions relating to contract management.

The Accounting Officer promised to have contract managers formally appointed and records of contract management maintained for all future contracts.

36.4 Unplanned Procurement for Accommodation and Conference Facilities

A contract amounting to US$.665,936 was awarded to a local hotel to provide accommodation and conference facilities to host the 6th session of the Parliamentary Union OIC member states (PUIC). Two variation orders were later approved by the Contracts Committee, one for US$.27,633 for an additional conference room to cater for the increased number of the technical team from Iran and another for US$.34,516 to provide extra facilities.

However, this activity had not been included in the procurement plan, neither was it provided for in the 2009/10 budget. As a result, funds set aside for the construction of the new parliamentary chambers were diverted to finance the activity. There is no evidence that approval in form of a supplementary budget was obtained by management.

The Accounting Officer explained that the confirmation for the conference was done during the 21st meeting of the Executive Committee held between 28th – 29th June 2009, long after the Parliamentary Commission had submitted its budget to the Minister of Finance. He further explained that the member states of the PUIC gave the impression that they would financially support the
Government of Uganda to host the Conference but unfortunately, only a few countries contributed a total of US$.145,000.

I have advised the Accounting Officer to ensure that all anticipated activities are always included in the annual budget and procurement plan, and in case of supplementary funding authority should always be sought.

36.5 **Weaknesses in Motor Vehicle Management System**

Review of the motor vehicle management system revealed a number of weaknesses as shown below:-

- Whereas movement logbooks were issued for all vehicles, it was noted that only one logbook for motor vehicle reg. No. UG0133H attached to Public Relations Office had the journeys indicated. Management has not instituted a monitoring mechanism to ensure full utilization of the movement logbooks. This weakens controls over usage of the motor vehicles.

- Instances were noted where some vehicles got involved in accidents while in the hands of persons other than the designated official drivers. For example, a total of shs.12,164,917 was spent on repairs of two parliamentary Vehicles, number UG0132H and UG0103H that got involved in accidents while being driven by Members of Parliament without authority from the Accounting Officer. There is no evidence that management sought to recover the funds in question from the affected individuals.

- It was observed that the commission lacks a motor vehicle monitoring and transport management policy despite having a big fleet of vehicles. This weakens controls over usage of vehicles.

I advised the Accounting Officer to urgently address the above weaknesses by putting in place a policy to guide the management of vehicle. Where vehicles
get involved in accidents in the hands of unauthorized persons, they should be held responsible and money spent on repairs recovered from them.

36.6 **High Maintenance Costs for Motor Vehicles**

The Parliamentary Commission maintains a fleet of 53 vehicles of which 39 vehicles are relatively new having been purchased between April 2007 and July 2010. An analysis of the maintenance costs however indicates that some of these vehicles frequently break down and a lot of money is spent on repairs. The following vehicles were particularly identified as having abnormally high maintenance costs:

<table>
<thead>
<tr>
<th>Reg No</th>
<th>Date of 1st Reg.</th>
<th>User Department</th>
<th>Amount Spent (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UG0081H</td>
<td>30/04/07</td>
<td>Office of Deputy Speaker</td>
<td>10,101,271</td>
</tr>
<tr>
<td>UG0086H</td>
<td>05/03/08</td>
<td>Leader of the Opposition</td>
<td>20,024,537</td>
</tr>
<tr>
<td>UG0091H</td>
<td>16/06/08</td>
<td>Office of Deputy Speaker</td>
<td>10,740,588</td>
</tr>
<tr>
<td>UG0132H</td>
<td>12/03/09</td>
<td>Parliamentary commission Secretariat</td>
<td>23,007,359</td>
</tr>
<tr>
<td>UG0161H</td>
<td>30/12/09</td>
<td>Parliamentary commission Secretariat</td>
<td>7,133,398</td>
</tr>
<tr>
<td>UG0162H</td>
<td>30/12/09</td>
<td>Parliamentary Commission</td>
<td>5,866,114</td>
</tr>
</tbody>
</table>

This implies that the continued usage of such vehicles by the commission may not be economical in the medium/long term.

I have advised management to consider replacing the vehicles in question.

36.7 **Improper Fuel Accountabilities**

Review of expenditure on fuel for the financial year 2009/2010 revealed that a total of Shs.1,481,903,043 was advanced to various committees/departments/directorates to cater for fuel to carry out official activities. However, the following matters were noted:-
The accountabilities were filed separately from the vouchers but there was no system of cross-referencing the two, hence making it difficult to match the payment vouchers to the accountability.

Examination of accountabilities submitted showed that only documents relating to consumption were presented but without indicating the reason for obtaining the fuel. While it was a requirement that a record of movements be made for each vehicle in the logbook, this procedure was ignored. In the circumstances.

I was not able to confirm that the fuel advances were used for official purposes.

I have advised management to institute a system that ensures that accountabilities for fuel are cross-referenced to the relevant payment vouchers, so as to ensure a proper audit trail. In addition, management should re-emphasize the use of vehicle movement logbooks.

In his response, the accounting officer explained that effective July 2010 a new officer at a rank of a senior accountant has been allocated the duty to streamline the system. He promised that measures would be taken to enforce the use of logbooks as a means to justify fuel consumption.

36.8 **Budget Performance**

A review of the budget performance reports for the year revealed that the Commission undertook most of the activities stipulated in the budget except consultancy services and construction of chambers for which Shs.1,054,285,714 and shs.8,785,714,286 respectively were provided. It was however noted that part of this money was diverted to cater for recurrent activities the Commission was involved in including hosting the 6th PUIC Conference.

In addition, the following matters were noted;
• **Delays in the approval process**
   While the budget indicated that the structural design for the main chambers had been completed at the time of drawing the budget, evidence on file indicated that the process of approval is yet to be finalized.

• **Delays in the procurement process**
   It was noted that there were delays in procurement of the consultancy services. While the request for this procurement was made on 11th September 2006, the contract awarded to the eventual winner was signed on 6th June 2008, twenty-two months later.

   Delays were also noted in the procurement of the contractor for the construction of the new parliamentary chambers. While the 2009/10 budget had indicated that the tender process would be accomplished in the 1st quarter of the financial year, evidence available indicates that the Contract relating to phase I was awarded to M/s Seyani Brothers and Co. Ltd on August 9, 2010.

   Such delays can lead to escalation of costs because of changes in prices of material.

• **Delays in the execution of the consultancy contract**
   Considerable delays were also noted in the implementation of the consultancy contract. The contract file did not provide evidence that a contract manager was appointed to oversee the implementation of the consultancy contract and this ultimately affects the overall progress of the entire project.

   The Accounting Officer explained that the delay in approving the plan was caused by a number of factors including the long process of obtaining the title from Uganda Land Commission while delays in the signing of the contract with the consultant were caused by the many stakeholders who wanted their views to be incorporated.
I have advised management to speed up the implementation of the project.

36.9 **Remittance of Taxes**

It was noted that a total of Shs.2,607,729,832 was remitted to Uganda Revenue Authority (URA) in respect of PAYE and WHT deducted at source. However, receipts supporting these remittances were not presented for verification. In absence of these receipts I was not able to confirm that all remittances were actually received by URA.

In addition, the bank reconciliation statement for bank account number 246203035 shows that a sum of Shs.340,262,323 purportedly remitted to the tax body for the months of October 2009, February 2010, April 2010 and May 2010 in respect of PAYE and WHT were not reflected on the bank statement by the end of the financial year.

I advised management to ensure that the receipts in question are obtained. In addition, management should also liaise with BoU over the un-debited remittances on the bank statement.

37.0 **HEALTH SERVICE COMMISSION**

37.1 **Over expenditure on Domestic Arrears**

According to the statement of appropriation account a total of Shs.49,613,848 was paid as domestic arrears by the Commission. However, no funds had been allocated in the annual budget for the activity. The re-allocation of funds towards settlement of these arrears lacked relevant authority. This practice contravenes the Public Finance and Accountability Act, 2003.

I have advised the Accounting Officer that where funds are inadequate, reallocations should always be in accordance with regulations.
37.2 **Unutilised Cash Balances**

A total of Shs.12,864,210 that remained unutilised at end of the previous financial year were not remitted to the Consolidated Fund as required by the Public Finance and Accountability Act 2003. This denies Government resources to finance other planned activities. Management is advised to liaise with the Accountant General to ensure that these funds are remitted to UCF.

37.3 **Lack of Work Place Policy on HIV/AIDS**

Good human resource practices require that organizations develop policies related to the impact of HIV/AIDS at the work place. Health Service Commission being at the helm of ensuring that there is efficient and effective health service delivery in the country should have taken a lead in this initiative. However, it was noted that the Commission had not developed these policies which may affect employees’ performance as a result of lack of care.

Management should put in place a work place policy on HIV/AIDS and also make provision for HIV/AIDS related activities in the budget.

The Accounting Officer promised to have the policy in place by the end of the year. The result of this action is awaited.

37.4 **Unfilled Posts**

A review of the approved structure revealed that the Commission should have an establishment of 54 staff in various positions. The records however indicate that 12 positions including those of Assistant commissioner Examinations, Principal stores assistant, senior office supervisor and 2 Stenographer secretaries are vacant, a situation which has persisted for the last three years.

Failure to fill these positions impacts on the delivery of services.
The Accounting Officer explained that a principal stores assistant and stenographer had been posted to the Commission although they had not reported by the time of writing this report and hoped that other vacant posts will be filled by June 2011.

I have advised the Accounting Officer to continue liaising with the relevant authorities to ensure that all vacant posts are filled.

37.5 **Budget Performance**

A review of the annual performance of the Commission revealed that some planned activities were not implemented as explained below:-

(a) **Unprocured items**

According to the financial statements of the Commission Shs.2,602,227,031 was received against a budget of Shs.2,559,528,000 implying all the funds requested for were received. However, on examination of the relevant records, it was noted that the under-listed items were not procured although they had been budgeted for:

- 6 board room tables.
- 30 board room chairs.
- One Scanner
- One power point projector.
- Two computers
- Four office chairs.
- Two saloon cars
- One motor cycle
- One book shelf.

This implies that the funding earmarked for the purpose was diverted to other activities.
(b) **Supervision support**

The Commission had planned to visit 11 regional referral hospitals and 40 District Service Commissions for technical support supervisions but only 4 regional referral hospitals and 25 District Service Commissions were visited leaving 7 regional referral hospitals and 15 District Service Commission not visited. Failure by the Commission to fulfil its planned technical support to all the regions hinders the dissemination of knowledge and other support services needed by the health sector and health workers especially at up country stations.

Management should always ensure that planned activities for which funds have been released are undertaken so as to enhance the performance of the Commission.

The Accounting Officer explained that the period March-June 2009 was dedicated to conducting interviews for urgently required posts which limited the financial and human resources needed to carry out the planned visits. It was also pointed out that the available resources are still inadequate to cover all the districts.

37.6 **Unacknowledged Payments of Tax**

During the year under audit, management made tax deductions amounting to Shs.60,605,178 that was remitted to URA. However, acknowledgement receipts issued by URA to confirm receipt of taxes by the tax body were not made available for verification. Although it was explained that there are usually delays in obtaining the acknowledgement receipts from the tax body there was no evidence to show that the entity was pursuing the matter with the Authority.

I was therefore not able to ascertain that the remitted taxes were actually received by the tax body.

The Accounting Officer is advised to ensure that the acknowledgements relating to the remitted taxes are received.
37.7  **Expenditure on Utility not Accounted For**

Records relating to expenditure of Shs.11,601,470 on electricity indicated that the payments were made without the actual invoices from the service Provider (UMEME). The funds were paid as and when they were being released by Treasury without reconciling the payments with the actual consumption. This can lead to loss of funds by the Commission through over invoicing.

I advised the Accounting Officer to regularly reconcile the bills from the landlord with the actual consumption and the bills from the service provider.

38.0  **JUDICIAL SERVICE COMMISSION**

38.1  **Budget Performance**

A review of the performance reports revealed that the Commission did not achieve the expected outputs under four planned activities as indicated below.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Planned Output</th>
<th>Actual Output</th>
<th>Remarks by the Accounting Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Holding Disciplinary committee meetings</td>
<td>21 meetings</td>
<td>6 meetings</td>
<td>Due to delayed appointment of the ninth member of the commission.</td>
</tr>
<tr>
<td>2 Purchase of suggestion boxes</td>
<td>21 boxes</td>
<td>Nil</td>
<td>Commission to introduce use of Information Technology</td>
</tr>
<tr>
<td>3 Impact assessment visits</td>
<td>14 field visits</td>
<td>7 field visits</td>
<td>Due to under staffing in the technical departments</td>
</tr>
<tr>
<td>4 Field surveys in magisterial areas</td>
<td>8</td>
<td>3</td>
<td>Due to under staffing in the technical departments</td>
</tr>
</tbody>
</table>

These planned activities are crucial in promoting the rights of victims and accused persons through improved access to fair justice and public awareness in the justice system. Failure to perform these key activities may hinder the Commission from achieving its objectives.
The Accounting Officer attributed the failure to execute some of the activities to lack of full membership of the Commission and under staffing in the technical departments.

I have advised him to liaise with the responsible Ministries to address the staffing gaps.

39.0 ELECTORAL COMMISSION

39.1 Expenditure by the Commission

(a) Inadequately Supported Expenditure at the Commission Headquarters

A total of Shs.2,106,382,683 paid out by the Commission to carry out various activities remained unaccounted for by the time of writing my report (March 2011). The funds were meant for Workshops (Shs.848,063,435), Media services (Shs.357,844,181) and District registrars (Shs.900,476,067) for workshop related expenses. In absence of accountability documents, I was not able to confirm that the funds were utilized on intended activities.

(b) Inadequately Supported Expenditure at District Offices

A review of the accountability tendered by various district offices revealed expenditure amounting to Shs.3,324,064,169 made by the district offices during the year under review was not properly supported. The bulk of this expenditure and particularly relating to workshops lacked attendance list of participants while that relating to media and publicity was not supported with acknowledgement receipts.

In absence of supporting documentation, I could not confirm the occurrence, accuracy and validity of the expenditure.

39.2 Variance in the Statements of Appropriation Account

The Statement of Appropriation Account (Based on Services Voted by Parliament) reflects total actual expenditure of Shs100,378,907,085 while the
Statement of Appropriation Account (Based on nature of expenditure for services Voted) actual expenditure of Shs.104,580,269,980 leading to a variance of Shs.4,201,362,895. This variance was not explained.

39.3 **Payables**

The commitment control system requires the Accounting Officer not to commit in an entity without confirmation of availability of funding. It was however, noted that the Commission continued to make commitments for goods and services without first confirming the availability of funds. As a result, by the end of the financial year the Commission had incurred commitments in form of unpaid bills amounting to Shs.360,694,431 bringing the cumulative domestic arrears position to Shs.959,151,859.

Failure to adhere to the commitment control system exposes the Commission to the risk of litigation.

I have advised the Accounting Officer to abide by the commitment control system.

39.4 **Hire of Ware House**

A total of Shs.1,035,450,000 was paid to a property management company for hire of warehouse on plot 35 Mukabya (Banda) for ten months. However it was observed that the rates charged were not supported by a valuation report by the Chief Government Valuer as is normaly the practice. I could not therefore ascertain as to whether the rates charged were reasonable.

It was also observed that withholding tax amounting to Shs.62,127,000 was not deducted at source from the payment contrary to the Income Tax. This attracts penalties by URA. I advised the Accounting Officer to follow established procedures for rental of properties. The Commission should also consider putting up its own facilities.
39.5 **Lack of records of Motor Vehicle Maintenance and Repairs**

Good practice requires the entity to maintain a complete record of repairs and maintenance in respect of motor vehicles and other similar assets. This record should show all information relating to financial and non-financial matters pertaining to the vehicle and particularly record of purchase, repairs and maintenance. It was noted that during the year, a total of shs.803,198,025 was spent on vehicle maintenance and repairs. However, in absence of proper maintenance records, it was difficult to track and analyse the expenditure with due regard to economy.

I advised management to ensure that proper records are maintained for the repair and maintenance of vehicles.

39.6 **Adherence to Procurement Regulations**

A sample of procurements worth Shs.21,906,516,271 was reviewed to assess the level of compliance with PPDA laws and guidelines. The following matters were noted:

- PPDA regulation 225 (2) (f) requires PDEs to obtain approval of procurements by all relevant agencies, including Attorney General, this requirement was not met by the Commission.
- Regulation 164 (1), part 2 requires the records of attendance to be documented by signing form PP35 by all individuals in attendance. However, in most cases Form PP35 were not filled.
- Regulation 169 (9) requires the evaluation committee members to fill ethical form 211. In most procurement files reviewed this form was not signed.
- There were no letters of bid acceptance from several suppliers.

39.7 **Un receipted payments to URA**

The Commission paid a total of Shs.684,460,075 to Uganda Revenue Authority in respect of Withholding Tax and Pay As You Earn deducted from various suppliers and Commission’s staff respectively. However, acknowledgement receipts were not availed to confirm that the funds were received by the Tax
Authority. Management attributed the anomaly to delays by Uganda Revenue Authority to issue receipts.

I have advised the Accounting Officer to follow up the receipts with the Authority.

39.8 **Temporary Appointments**
Section 4.6(7) of the Electoral Commission Personnel Manual provides that temporary appointments shall be limited to a period not exceeding six consecutive months for any one contract. However, a review of Personnel File records revealed that seventeen (17) employees were either on probation or temporary appointment exceeding the established period of six months contrary to the manual and some have served since 2005.

I have advised the Accounting Officer to adhere to the requirements of the manual.

39.9 **Field Inspections**
Audit inspections were carried in the districts of Kumi, Mbale, Tororo, Jinja, Mukono, Fort Potal, Rukungire, Ntungamo, Mbarara, Mityana, Mubende, Mpigi, Wakiso and Arua and the following matters were observed:-

(a) **Books of Accounts**
Cash books were not being properly maintained. Some of the stations had no cash books at all. The area district officers attributed the problem to lack of trained staff at their stations they lacked trained staff to do the job.

Failure to maintain cash books weakens controls over the cash management function.

(b) **Assets Registers**
Several district offices did not maintain asset registers to record assets at their offices while some offices maintained asset registers which were not
comprehensive enough as the details of the assets were lacking. Others had several assets not included in the registers at all. In all stations, all computers were not engraved to ease their identification. This weakens control over the assets management function.

40.0 **UGANDA HUMAN RIGHTS COMMISSION**

40.1 **Lack Of Acknowledgement Receipts**

The Commission paid to Uganda revenue authority Shs.440,274,885 in respect of Withholding Tax and PAYE and Shs.67,594,000 to various institutions for having rendered services including utilities, training and repair of vehicles. However, the remittances were not supported with acknowledgement receipts from URA and other beneficiaries. I was not able to confirm that the funds were received by the rightful beneficiary.

I advised the Accounting Officer to obtain the acknowledgment receipts from the beneficiaries.

40.2 **Expenditure on Travel Abroad not Properly Accounted For**

The Commission spent Shs.71,365,177 on air tickets and allowances for officials traveling abroad. However, the expenditures were not supported by air ticket coupons, activity reports and air ticket register. In absence of such accountability documentation the validity of the expenditure could not be confirmed.

I advised management to ensure that all public funds paid out are accounted for in accordance with the existing financial regulations.

41.0 **PUBLIC SERVICE COMMISSION**

41.1 **Domestic Arrears Incurred During the Year**

During the financial year under review, the Commission incurred commitments amounting to Shs.290,238,460 which resulted in outstanding commitments at
year end of Shs.320,067,170. This contravenes the commitment control system put in place by Government to avoid the accumulation of domestic public debt.

The Accounting Officer attributed this to increase in responsibilities arising from creation of new districts which was not matched with increased funding.

I advised the Accounting Officer to always adhere to the commitment control system.

41.2 **Lack of a Strategic Plan**

A strategic plan is an important tool in helping an organization achieve its objectives. It was noted during the audit that the Commission’s strategic plan (2006-2010) expired at the end of the year and a new one had not been put in place by the time of audit in February 2011. Delay in developing a plan may adversely impact on the Commission activities.

The Accounting Officer indicated that the new strategic plan is being worked on and will be ready by June 2011. I advised him to expedite the process.

41.3 **Organizational Structure**

The Commission operates under a staffing structure that was created as a result of trading off some posts in order to create new critical posts to address the key staffing gaps in the Commission. A review of the structure and operations of the Commission revealed that one post of Commissioner and 15 others were still vacant. These positions are considered so important for the operations of the Commission that leaving them vacant may impact on service delivery.

The Accounting Officer was advised to pursue further the review and approval of the structure and have the vacant posts filled.

In his response, the Accounting Officer explained that he had followed up the matter with Ministry of Public Service and had been granted a provisional
structure. He added that proposals for a new structure of the Commission had been submitted to the Ministry of Public Service. The outcome is awaited.

41.4 **Improperly Maintained Stores Records**

Section 91 of the Public Finance and Accountability Regulations, states that an appropriate record shall be kept in respect of every inventory received in a format prescribed by the Accountant General. Section 92 of the same Regulation states that inventories are accounted for by values as well as by quantity, and that it is necessary to keep records so as to determine the unit cost of each inventory item. Contrary to this regulation, the stores ledger was not properly maintained as it did not state the unit cost of each inventory item and inventories issued from stores were in most cases not recorded in the stores ledger while those recorded were not based on issue vouchers.

As a result, inventory balances at the end of the financial year could not be adequately reconciled and verified. Management should consider recruiting a competent Stores Keeper to manage the stores.

In his response, the Accounting Officer indicated that the need to recruit a competent Stores Staff at the level of a Stores Assistant was identified and proposals made for consideration in the revised structure of the Commission.

I advised the Accounting Officer to expedite the process.

41.5 **Unacknowledged Payments of Tax**

During the year under review remittances of statutory deductions relating to PAYE amounting to Shs.77,532,116 made to URA were not acknowledged by the Authority. In absence of receipts I was not able to confirm that the taxes were received by the tax body. It was explained that there are usually delays in obtaining the acknowledgements receipts from URA but there was no evidence to show that the entity was pursuing the matter with the Authority.
The Accounting Officer should ensure that the acknowledgement receipts are obtained from the Authority.

41.6 **Internal Audit**

Although the Commission has an officer who performs the internal audit function, the function has not yet been mainstreamed in the organizational structure. In addition, the Commission does not have a separate budget line for Internal Audit activities contrary to the requirement for all Ministries/Agencies to provide for a separate budget for this function.

The Accounting Officer explained that the matter is being handled as part of the review of the structure for Public Service Commission alongside the other Ministries, Departments and Local Governments. The outcome is awaited.

42.0 **UGANDA LAW REFORM COMMISSION**

42.1 **Payables**

42.2 **Unsupported Adjustments**

The Statement of Changes in Equity reflects an adjustment of Shs.124,262,097 in respect of payables incurred during the year. However, the adjustment is not supported with a schedule and other documentation.

In absence of the related detailed information, I was not able to verify the accuracy and completeness of the payables balance.

42.3 **Arrears of NSSF Contributions**

The statement of financial position reflects payables balance of Shs.288,146,151 as at 30th June 2010. It was noted that the bulk of this relates to un-remitted NSSF contributions for the period between November 1995 to November 2006 amounting to Shs.163,884,054. Due to failure by the Commission to pay the amount, NSSF took the Commission to court which advised that the matter be
settled out of court. The Commission faces the risk of further penalties if resources are not mobilized for settlement of the arrears in question.

The Accounting Officer explained that the commission has over the last two years been making provisions in the budget but funds have not been released.

I have advised the Accounting Officer to expedite the resolution of the dispute with NSSF and liaise with the Attorney General for its settlement as a statutory payment.

42.4 **Delayed Appointment of Commissioners**

According to section 3 of the Uganda Law Reform Act, the Commission should comprise of a Chairperson and six other Commissioners appointed by H.E. the President on the advice of the Attorney General. Section 5 of the Act requires a quorum of three Commissioners, two of whom have to be lawyers. A review of the Minutes of the Commissioner’s meetings revealed that the last meeting of the commissioners was held on 22nd May 2005. This was attributed to the fact that the Commission is not fully constituted because of the delayed appointment of the Commissioners. This has created a vacuum in the Commission’s operations.

The Accounting Officer explained that the Attorney General in September 2010, made fresh recommendations to the appointing authority for the appointment of the new Chairman and six part time commissioners and was still waiting for his action on the matter.

42.5 **Unspent Balances**

The Public Finance and Accountability Act, 2003 requires Accounting Officers to return to the Uganda Consolidated Fund unspent balances at end of each financial year. However, unspent balances amounting to Shs.24,133,172 relating to the financial year 2008/09 were not returned to the Consolidated Fund.
I have advised management to ensure that unspent balances are transferred to the Consolidated Fund promptly.

42.6 Tax Remittances to URA not Acknowledged

The Commission remitted PAYE deductions amounting to Shs.8,767,555 to Uganda Revenue Authority during the year under review. However the remittance had not been acknowledged by the tax body by the time of audit.

Management was advised to follow up the acknowledgement receipts from the Authority.

43.0 EDUCATION SERVICE COMMISSION

43.1 Transfer of Balances to UCF

According to the statement of changes in equity, a total of Shs.46,390,819 was transferred to the UCF as balances from the previous financial year. However, according to note 20, the previous year balances amounted to only Shs.549,545.

The difference of Shs.45,841,274 is explained by an adjustment to correct an understatement of Cash balances of the previous year. However, in absence of reconciliation and the supporting documentation, I could not confirm the validity and accuracy of the adjustment.

43.2 Expenditure on Hire of Casual Workers Not Accounted for

The Commission withdrew a total of Shs.44,740,000 representing 1.2% of the Commission expenditure in the names of Secretary ESC. The funds were meant to cater for sitting allowances for casual workers.

However, the register for the casual workers showing their attendance for work was not availed for audit. There was also no evidence to show that they individually received the allowances.
In absence of supporting documentation, I was not able to confirm that the funds were used for the intended purposes.

I have advised management to always ensure that all expenditure is properly supported.

43.3 Lack of a Register of all Public Officers in the Education Service

The Commission is mandated to maintain a record of all instruments of appointment, confirmation, promotion, discipline and study leave for all persons in the Education Service. Furthermore, a register of all Public Officers in the Education Service should be established and maintained by the Commission. However, it was observed that the Commission does not have an accurate register relating to appointment, confirmation, promotion, discipline and study leave of all public officers in the Education service.

Failure to establish and maintain a register of all public officers in Education Service can result into an inflated payroll for public officers in the Education Service.

The Accounting Officer explained that this has remained a challenge to the Commission due to the manual system of data entry, processing, management, storage and retrieval. He added that they had acquired a new Electronic Data Bank system to help in streamlining the personal records of all people employed in the Education service.

I have advised management to expedite the streamlining of records of all staff in the education service.

43.4 Assessment of Delivery of Outputs

The Commission planned to recruit and appoint 6,000 Teaching and Non Teaching personnel, validate 1,000 teachers in schools in the northern region
and visit, supervise and guide all District Service Commissions on standard recruitment guidelines and procedures. However, review of the Commission Annual Report for the financial year 2009/10 revealed that, the Commission only managed to recruit and appoint 3,187 teaching and non teaching personnel. This implies that the commission failed to achieve its target by 2,813.

It was also noted that, the Commission validated the appointment of only 708 teachers in 40 schools in the districts of Amuru, Gulu, Kitgum and Pader against planned target of 1,000 teachers.

Failure to undertake all the planned activities can hamper achievement of the Commission objectives. I have advised management to ensure that all activities are always undertaken according to plan.

The Accounting Officer explained that, the Commission could not accomplish all of its planned activities due to several challenges that included:

- Limited staff at the Commission
- Delays in submission of vacancies by the Ministry of Education and sports
- Lack of adequate transport facilities at the commission.
- Limited and congested office space and lack of storage capacity for documents.

43.5 **Lack of a Strategic Plan**

It was noted that, the Commission had no strategic plan to guide it in the implementation of its mandate. Without a strategic plan, the Commission may not easily attain its overall mission and objectives.

I have advised management to expedite the process of developing the plan. This will also require putting in place a risk management strategy that will help the Commission in identifying the risks and mitigating the risks of failing to achieve the envisaged goals and objectives under the strategic plan.
43.6 **Vacant Posts**

A review of the structure of the commission revealed that, out of the 68 established posts, six were still vacant. I advised the Accounting Officer to expedite the process of filling all the approved posts. Failure to have all positions filled can impact on service delivery.

Management promised to fill the posts as soon as possible.

43.7 **Non Deduction Of Withholding Tax**

The Commission conducted a recruitment exercise of Secondary Schools teachers in the Regional Centers from 1\textsuperscript{st} to 5\textsuperscript{th} March 2010 and hired a Company to provide transport services during the exercise. It was however noted that 6% withholding tax amounting to Shs.300,000 was not deducted from payments to the service provider contrary to the Income Tax Act. This can attract penalties from URA.

Management regretted the error and indicated that they had written to the company to remit the 6% WHT to the Authority.

I have advised management to always ensure full adherence with the Income Tax Act.

43.8 **Purchase of Motor Vehicles**

A total of Shs.200,000,000 was paid to a Company for supply of two Mitsubishi Pajero GLX vehicles during the period under review. The following matters were observed upon review of the procurement process:-

a. It was noted that two firms responded for the advert to supply the vehicles. A review of the Evaluation report revealed that both firms did not meet/comply with the specifications as stated in the statement of requirements. For example, the commission wanted a manual engine vehicle,
one firm quoted for an automatic engine vehicle. The Road side assistance time specified in the statement of requirements was 36, but the firm was again non compliant. It was also noted that, the second firm’s proposal was not compliant with regard to the required height. Owing to these deviations, both proposals should have been rejected and the procurement re-advertised. However, the Evaluation Committee waived these deviations.

This was irregular since some of the deviations like type of engine are considered fundamental to the performance of a vehicle.

b. The Evaluation Committee further recommended that both firms be given a chance to quote for a vehicle that is less expensive yet conforming to the original specifications. This recommendation was implemented and only one firm responded. Apparently, this recommendation was not viable because both firms had failed to meet the original specifications.

Management explained that the specifications were carefully studied and the evaluation committee felt the issues raised were not fundamental as far as performance of the vehicles is concerned. They further explained that the firms were given chance to quote for a less expensive vehicle, but by that time one of the firms had been black listed by PPDA and could not participate.

I have advised management to always comply with the PPDA regulations.

44.0 LOCAL GOVERNMENT FINANCE COMMISSION

44.1 Overdrawn Bank Account

The Public Finance and Accountability Regulations 82(3) and Treasury Accounting Instruction 330 prohibits overdrawing of an official bank account or to obtain any advance or loan from the bank for official purposes, without the prior authority of the Minister of Finance through the Accountant General.
Verification of the certificate of bank balance from BoU together with the bank reconciliation statement revealed that the TGA account had a debit balance of Shs.4,598,545 as at 30th June, 2010. This was in contravention of the above regulation. As a consequence, the bank could not clear 47 cheques totaling to Shs.14,749,320. These remained un-processed as at 30th June, 2010 although they had been presented a month earlier (10th May, 2010).

It was further noted that these un-processed payments were not recognized as payables hence understating the liability position at the year end.

Management explained that they had sought audience with BoU in order to reconcile their positions.

Management was advised to always adhere to the law and to make the necessary adjustments on the payables position.

44.2 **Un-Remitted PAYE and WHT deductions**

Section 123(1) of the Income Tax Act requires that the withholding agent pays to URA any tax that has been withheld within fifteen days after the end of the month in which the payment was made by the withholding agent. During the year under review, the Commission deducted PAYE from employee allowances and also withheld a total Shs.36,420,061 on supplier invoices. The deductions were held longer than the required period.

It was further noted that there were no acknowledgement receipts to confirm that the amounts were remitted to the authority. Non-remittance or late remittances of tax deductions may lead to imposition of penalties by the URA.

Management explained that the accounting software that was being used at the time, for unknown reasons was not remitting the deductions for payment and
this therefore caused delays in remitting the taxes. However, efforts had been made by management to get the receipts from URA.

I advised management to always ensure timely remittance of tax deduction in future.

44.3 **Non adherence to PPDA Regulations**

A review of the procurements undertaken by the Commission during the year under review, revealed the following matters:-

(a) **Discrepancy between the procurement plan and the approved budget**

Section 60 of the PPDA Regulations requires user departments to prepare work plans for procurement based on the approved budget which are supposed to be submitted to the procurement and disposal unit for implementation. Contrary to the above regulation, procurements worth Shs.34,754,480 which were budgeted for, were not reflected in the procurement plan. These included computers & printer (worth Shs.18,140,000), office partitioning (valued at Shs.7,365,840), staff identity cards (worth Shs.2,003,740) and x-mass cards & calendars (worth Shs.7,244,900). The omission renders the procurements un-planned for. This can result into rushed procurements and use of inappropriate procurement methods.

Management acknowledged the anomaly and promised to adjust the procurement plan to always reflect the changing position.

I advised management to ensure that the procurements plans are always complied with in accordance with the approved budget to enable comparison and meaningful analysis.
(b) **Payment for un-certified works**

The PPDA Regulation 260(2) (f) requires the contracts manager to submit reports on the progress or completion of a particular contract. Section 253 requires payments to contractors to be based on certification of actual works completed.

During the year under review, the Commission awarded a contract for office partitioning at a contract sum of Shs.8,175,000. Accordingly, the Senior Administration Officer was appointed as the contracts manager. However, the contracts management report or any other form of works certification was not availed for verification despite the Commission making full payments to the contractor. The possibility of payment for works not conforming to the original user requirements or unsatisfactory works could not be ruled out.

Management explained that the commission framework for certification of works was not clear and was yet to seek clarification from the Accountant General/PPDA.

I advised that future payments for similar works should be based on work certifications as required by the PPDA regulations.

44.4 **Assessment of Delivery of Outputs**

According to Section (25) of the Act, the Commission is required to prepare and submit an annual report to Parliament. This report outlines the commission’s annual performance. However, it was noted that at the time of writing this report, the commission had not fulfilled this requirement. I could not therefore undertake an assessment of delivery of outputs by the Commission for the year under review.

Management explained that the annual report for the year under review would be finalized by February 2011.
Management was advised to ensure timely production of statutory annual performance reports to enable reviews and relevant analysis by stakeholders.

45.0 **UGANDA BLOOD TRANSFUSION SERVICES**

45.1 **General/Consolidated Financial Position of the Entity**

It has been noted that only 30% of the UBTS budget is financed directly by the Government. The other portion is funded by various development partners. The funding gap in the period under review stood at shs.9.93 billion. Over reliance on donor funding presents a risk of non sustainability of the entity activities in the event that the donor support gets exhausted.

Management explained that there are indications that government funding will be stepped up in the subsequent financial years.

I advised the Accounting Officer to liaise with the Ministry of Finance, Planning and Economic Development over the matter.

45.2 **Procurement Documents**

It noted that the entity did not have a list of pre qualified supplies for the year as required by the procurement guidelines. The list availed for audit had expired in 2008/09. This implies that management did not fully adhere to the procurement law.

The Accounting Officer explained that the omission was caused by frequent and abrupt transfers of Procurement & Disposal Unit personnel of the entity.

I advised the Accounting Officer to always ensure full adherence with the procurement law.
46.0 **UGANDA LAND COMMISSION**

46.1 **Domestic Arrears**

The Statements of Outstanding Commitments at the end of the financial year reflected a balance of Shs.1,960,889,649, which comprised of mainly unpaid property rates. However, the outstanding bills/invoices were not availed for verification. The Commission also lacked a comprehensive data base or register of all the Government properties it was supposed to pay rates for. The Commission relied entirely on the information presented by the City Council, Urban, Municipal and Town Councils to process payments of property rates. This makes it difficult to track arrears of property rates. It was also observed that the schedule of outstanding commitments presented was not verified by Internal Audit as the normal practice requires.

In absence of a comprehensive property register or database, I was not able to confirm the accuracy and completeness of the domestic arrears balance reported in the financial statements.

The Accounting Officer explained that the Commission receives valuation lists every five years from the local and urban authorities. It is on this basis that bills relating to property rates from the City, urban, Municipal and Town councils are verified and processed.

46.2 **Lack of an Approved Structure**

The Land Act mandates Uganda Land Commission to hold and manage all Government land. As stated in my previous report, this mandate requires the Commission to have a proper organizational structure that is substantially filled with the required staff to allow it operate effectively.

Although the Commission has been operating independently for four years since its inception, it has not come up with a proper structure. It still operates under
the structure it had when it was still a department under the then Ministry of Lands, Water and Environment. By the time of audit, the Commission had 37 staff out of which, 8 are part time Commissioners while 10 are on contract terms leaving only 19 permanent staff as opposed to 24 staff reported the previous year.

The existence of staffing gaps in the key positions indicates that the Commission does not accord staff recruitment the importance it deserves. Lack of a proper structure may result into poor service delivery.

The Accounting Officer explained that the restructuring of the ULC was ongoing and that the consultancy firm contracted to carry out the work by the Ministry of Public Service had already visited the Commission.

I advised management to liaise with the Ministry of Public Service to expedite the exercise.

46.3 **Legal Status of the ULC**

The Uganda Land Commission came into existence by virtue of Section 46(1) & (2) of the Land Act 2000. However, to-date there are no Regulations in place to govern its operations.

The Accounting Officer explained that a working committee for drafting the Uganda Land Commission bill was appointed and the draft report was being finalized for submission to the Solicitor General for his/her input.

In absence of regulations to govern its day to day operations, the Commission may overstep its mandate and fail to effectively serve the purpose for which it was created.

I advised management to liaise with the Ministry of Justice to expedite the exercise.
46.4 **The Land Fund**

Section 41(1) of the Land Act 2000, CAP 227, provides that there shall be a fund to be known as the Land Fund which shall be managed by the Commission. Sub-section (10) further provides that the Minister shall ensure that the Fund is duly established within one year after coming into force of the Act and that monies are provided for the Land Fund. The purposes of the Fund are to;

- provide loans to tenants by occupancy to enable them acquire registrable interests pursuant to Article 237(9)(b) of the Constitution.

- provide funds to Government to purchase or acquire registered land to enable tenants by occupancy acquire registrable interests pursuant to the Constitution.

- resettle persons who have been rendered landless by Government action, natural disaster or any other cause.

- assist other persons to acquire titles.

However, it was noted that nearly 10 years after the coming into force of the Act, the Land Fund is not operational. This has denied many tenants by occupancy the opportunity to acquire registrable interests although the Commission is acquiring land. It has also created difficulties in getting settlements for people who have been rendered landless by Government actions or natural disasters.

Although the Accounting Officer explained that the Land Fund regulations were made and cleared by the Solicitor General, the draft regulations were not availed.
I advised management to liaise with the Accountant General to ensure that the Land Fund is fully established in accordance with the Public Finance and Accountability Act, 2003.

46.5 **Land Allocation Procedures**

Section 49 of the Land Act mandates the Uganda Land Commission to act as a custodian of all Government land. According to the Land Regulations 23(2a-b), the Commission is required to dispose off Government land through advertisement, direct offer and auction methods.

However, a review of a sample of 50 land allocations revealed that the Commission only used the direct offer method to allocate land without any justification. For instance, applicants identified land, submitted applications and land was offered to them without subjecting the transactions (procurements) to competition through advertisements. As stated in my previous report, direct offers undermine the principles and procedures governing procurement and disposal of government assets.

The following matters were further observed:

- Information on government land available for sale or allocation is not provided to the public contrary to Regulation 23(21-b) of the land regulations which provides for advertisement and invitation of other persons to comment on the object of application.
- Land belonging to other government Ministries, Departments and Agencies is leased out without the consent of or clearance by the respective entities.
- Premium and ground rent payable is based on values by the Chief Government Valuer. However, in many cases valuation reports are not provided, while in some instances the values given by the Chief Government Valuer have tended to vary significantly from those of other private valuers especially in cases of compensations. In such cases the Commission has tended to tow a middle line without proper guidance and justification.
In view of the above, there is a risk of loss of government revenues through fraudulent land transactions.

The Accounting Officer explained that the majority of cases of lease offers relate to customary tenants who come to the Commission for regularization of tenure, and in the case of land belonging to other government agencies, the Commission acts on requests and there is always consensus before land is leased out. He further explained that the Chief Government valuer had been requested to provide full valuation reports.

I advised management to ensure that the land regulations are complied with in order to ensure fairness and transparency in land transactions. I further advised that in cases where Chief Government Valuer values differ from those of the private valuers acting on behalf of the land owners, the Chief Government Valuer should be involved in arriving at the final agreed values.

46.6 **Lease on Pepper Corn Terms**

During the period under review, the Commission leased various pieces of land on Pepper Corn term arrangements where the lessees were granted ownership of the land after paying a token amount of money. However, there were no laid down procedures to be followed by the Commission in making land allocations on such terms. This practice not only deprives government of revenue, but also gives the beneficiaries unfair advantage over their business counterparts.

It was further noted that, the terms of offer do not place any restrictions on future sale of the land by the lessees, in which case huge capital gains may be realized by the lessees at the expense of government. The details are shown below:-
# Uganda Land Commission Leases on Peppercorn Terms

<table>
<thead>
<tr>
<th>Plot No.</th>
<th>Location</th>
<th>Lessee</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>15&lt;sup&gt;th&lt;/sup&gt; Close, Namuwongo</td>
<td>Kayiwa Peter, Kasibayu B. Allan, Kalamuzi PB Ivan.and Kemirembe Patricia</td>
</tr>
<tr>
<td>12</td>
<td>Main Road, Namuwongo</td>
<td>Wakoba Alex</td>
</tr>
<tr>
<td>4</td>
<td>Wabigalo road Namuwongo, kampala</td>
<td>Kayondo Mulowoza</td>
</tr>
<tr>
<td>14 &amp;15</td>
<td>Block 66 Burahya</td>
<td>Registered Trustees of SOS Children’s Village of Uganda</td>
</tr>
<tr>
<td>118</td>
<td>Namuwongo Road Kampala</td>
<td>Ndeze David</td>
</tr>
<tr>
<td>47</td>
<td>-do-</td>
<td>Sitenda Kamba PO Box 474, Kampala</td>
</tr>
<tr>
<td>1</td>
<td>5&lt;sup&gt;th&lt;/sup&gt; Close, Namuwongo</td>
<td>Singh Sharan and Kaur Paramjeet</td>
</tr>
<tr>
<td>131</td>
<td>Namuwongo Road Kampala</td>
<td>Mukungu Kansonsole Paul Box 25773, Kampala</td>
</tr>
<tr>
<td>18</td>
<td>Kisugu Road Kampala</td>
<td>Mugambe Abel, Mugambe Kiryowa Abel, Nakibirango Sarah, Kaddu Deo, Mugambe Anord and Namipiima Barbra</td>
</tr>
<tr>
<td>4</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt; Close Namuwongo</td>
<td>Abibi Francis, Mrs Jannet Abibi and Odongo Mathew</td>
</tr>
<tr>
<td>181A</td>
<td>Namuwongo Road Kampala</td>
<td>MS SMARK ROCK PO Box 35401 Kampala</td>
</tr>
<tr>
<td>6</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt; Close Namuwogo</td>
<td>Margaret Otim Lamuno and Secalet Anema</td>
</tr>
<tr>
<td>182</td>
<td>Bukasa Road Namuwongo</td>
<td>Mohammed Bayani</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that the Commission facilitated the bonafide occupants on the land in Namuwongo to acquire titles, while the land in Burhya was given to SOS Children’s village of Uganda by the government, hence the offer on peppercorn terms.

I advised management to ensure that proper guidelines and procedures are developed to govern sale of Government land under peppercorn arrangements.

46.7 **Lack of an Up dated Land and Property Register**

Section 49 of the Land Act Cap 227 mandates Uganda Land Commission to be the custodian of all government land. A review of the land records available...
showed that, government land vested in the Commission is recorded and filed on flimsy file folders. These have no appropriate details like dates, location, acreage and current use or status of the land. Most of the land is not titled and the Commission lacked comprehensive information on all government land under its custody.

Government land is therefore vulnerable to encroachment by unscrupulous developers without the knowledge of the Commission. Lack of comprehensive information on government land may also lead to unplanned developments.

Management was advised to put in place a comprehensive land register and conduct a country wide data collection exercise to have all Government land captured in this register.

The Accounting Officer explained that the Commission has a land and property register for government titled land which is continuously being updated in terms of new acquisitions and current use. He further stated that a company was contracted by the government through the private sector to come up with an inventory of all un-ascertained government land. I advised him to ensure that the information in the register is comprehensive. Meanwhile I will await the outcome of the consultancy on the untitled land.

46.8 **Transfer of Certificates of Title**

According to Chapter 227, Section 49(c) of the Land Act, the Uganda Land Commission is supposed to have all land purchased by Government transferred and registered in its names. However, verification of documents relating to five land purchase transactions revealed that the transfers could not be effected because of the missing white pages. Details of the said transactions are as follows.
ULC: Non transfer of certificates of titles

<table>
<thead>
<tr>
<th>Block</th>
<th>Plot</th>
<th>County</th>
<th>Former owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>8</td>
<td>Buyaga</td>
<td>Kyambadde Joseph</td>
</tr>
<tr>
<td>103</td>
<td></td>
<td>Bugangaizi</td>
<td>Yoanna Lwanga</td>
</tr>
<tr>
<td>55</td>
<td>22,25,43,45,46,47</td>
<td>Bugangaizi</td>
<td>John Mary Nyanzi</td>
</tr>
<tr>
<td>83</td>
<td>4</td>
<td>Buyaga</td>
<td>Mpagi Frederick</td>
</tr>
<tr>
<td>36</td>
<td>6</td>
<td>Bungangaizi</td>
<td>Mukasa Peter</td>
</tr>
</tbody>
</table>

Failure to effect transfer of land titles to the Commission may result into loss of government land.

I advised the Commission to follow up the matter with the Ministry of Lands to ensure that the land is transferred in the names of the Uganda Land Commission.

46.9 Stores Management

An audit inspection carried out at the Commission stores revealed the following weaknesses;

- The Commission lacks a qualified store keeper. The person who performs this function is an Assistant Records Officer who lacks the requisite knowledge on stores management.

- Although a stores ledger was maintained, no GRNs were raised for all the items received into the stores. In addition, issues from stores were not supported with requisitions and authorized issue vouchers.

- The room acting as a store has no shelves and the items were scattered on the floor. The room is also not burglar proofed to ensure security of the items. There were also no fire extinguishers to guard against fire outbreaks.
I advised management to recruit a qualified store keeper and streamline the entire stores management and control system.

The Accounting Officer explained that the Commission acquired extra space and redesigned it to serve as a store, records centre and a board room.

46.10 **Budget Performance**

An analysis of the budget performance report of the commission revealed that four planned activities had not been fully carried out by the end of the financial year despite the fact that the commission realized about 98% of its budget. The details are presented in the table below:

<table>
<thead>
<tr>
<th>Planned Activities</th>
<th>Expected Outputs</th>
<th>Actual outputs</th>
<th>Deviation/Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Government leases</td>
<td>500 Government leases processed</td>
<td>375 Government leases processed</td>
<td>125 leases not processed</td>
</tr>
<tr>
<td>Process Government land titles</td>
<td>60 Government land titles processed</td>
<td>48 Government titles processed</td>
<td>12 titles not processed</td>
</tr>
<tr>
<td>Compensate bonafide occupants of land</td>
<td>5,000 hectares of registered land compensated</td>
<td>3,303 hectares of registered land compensated</td>
<td>1,697 hectares of registered land not compensated</td>
</tr>
<tr>
<td>Computerize lands record keeping</td>
<td>Computerized lands registry.</td>
<td>Not done</td>
<td>100% not done</td>
</tr>
<tr>
<td>Commence formulation of ULC Act</td>
<td>Uganda Land Commission Act.</td>
<td>Zero draft produced</td>
<td>100% not done</td>
</tr>
</tbody>
</table>

Failure to undertake or complete the above planned activities implies that funds released for the above purposes were either inadequate or diverted to fund other activities.

The Accounting Officer attributed the variance between planned outputs and actual outputs for government leases and land titles to delays in processing of lease documents. He also explained that there were cases where the land was encumbered due to court cases and disputes between central government and local governments.
I advised management to always strive to undertake and complete all the planned activities.

46.11 **Lack of Registries**

Paragraph 3 (p-d) of the Standing Orders requires each organ of the State to establish Registries and record centres for management of both current and semi-current records. Paragraph 4 of the same Standing Orders requires all documents which affect the official record on a public officer to be kept properly regardless of its source. Paragraph 5 provides for the types of records to be kept which include confidential and open files, while Paragraph 6 provides for accessibility to personal records by an individual public officer.

However, a review of service history records revealed that both the open and confidential files were being kept together contrary to Paragraph 6 of the Standing Orders. In addition, it was noted that the Commission has no established registries allegedly due to lack of space. As a result, the employees’ history records of confidential nature are vulnerable to accessibility by unauthorized persons.

The Accounting Officer attributed this to inadequate space. He explained that they were awaiting the restructuring exercise in order to get additional staff to manage the different registries.

I advised management to establish two separate registries to allow proper records management and to regulate access to staff personal files.

47.0 **UGANDA INDUSTRIAL RESEARCH INSTITUTE**

47.1 **Organization Structure and Staffing**

The Institute’s mission is geared towards improved capacity and competence of indigenous entrepreneurs in undertaking viable industrial processes and
producing high quality marketable products. To achieve this, a structure of 276 staff position was approved. However, it was noted that out of the approved establishment, only 163 posts had been filled leaving 112 positions (41%) vacant.

Further review revealed that since its inception, the Institute has never filled the position of Director (Finance and Administration), Human Resource Manager and Senior Accountant, positions considered to be key in steering the Institute towards the achievement of its objectives.

Failure to have the positions filled has resulted into junior officers being assigned high responsibilities, a practice that may impact on the performance of the Institute.

The Accounting Officer attributed this to inadequate budget allocation and was hopeful that by the end of 2011/2012 financial year the problem will have been solved.

47.2 Recruitment of Staff

Sec 6.3.3 of the Uganda Industrial Research Institute’s Human Resource Policy 2009 requires that for recruitment of officers, the human resource department in liaison with Heads of Departments relevant to the position should shortlist candidates and arrange for entrance (aptitude) tests as applicable, followed by oral interviews.

However; it was noted that a good number of staff have been recruited without following the recruitment procedure as prescribed in the policy. Most of the employees apply for a vacancy in the organization and get considered for the jobs without subjecting them to competition.

For example out of a sample of 30 personal files reviewed, sixteen (16) were found to have been recruited without the jobs being advertised. The risk associated with this practice is that the Institute may miss out on the opportunity
to take on the best evaluated candidates and this may compromise the quality of service delivery.

The Accounting Officer explained that the set policy of advertising has not always been successful in identifying personnel with required skills especially high caliber scientists and engineers. Through a mechanism of internship and industrial training, the Institute has been able to get suitable people. I have however, advised that the internship recruitment also be made competitive and more transparent.

47.3 **Audit Inspections**

47.3.1 **Potato Processing Plant**

The Uganda Industrial Research Institute under its mandate carried out research on Irish potatoes and the varieties suitable for potato crisps were identified in Kabale. Subsequently, the Institute entered into a joint venture with Katiba Traders comprising of a group of people who were identified to have an interest and a Memorandum of Understanding was accordingly signed. The group provided the land on which the potato and bamboo processing plant stands. Records show that the procurement of the machinery & equipment, renovation and construction works were carried out and completed some years ago.

Physical inspections carried out at the processing plant revealed that the newly built structure which is to serve as a store and living quarters has a cracked wall right from the wall plate to the foundation at two points.

It was also observed that the pit latrine foundation is also cracked with a gaping opening. It is evident that the wall structure may collapse anytime.

The Accounting Officer explained that they had engaged a Consultant to produce a technical report on the rehabilitation of the building.
47.3.2 **Bambo Toothpick Factory**

A Memorandum of Understanding was signed between UIRI and Bambo Toothpick factory to facilitate them venture into production of tooth picks, bamboo curtains, weaving sections and other bamboo products. The group was facilitated in the setting up of the bamboo factory which is located in the same premises with the Potato Processing Unit in Kabale Town. Its structure was also renovated and re-designed in order to accommodate the heavy machinery imported for the purpose. At the time of inspection there was construction of a new block in progress intended to house one of the machines.

However, production had not yet started more than a year after installing the machines and another big generator was lying idle within the compound.

It was also observed that the bamboo factory which shares the same premises with the Potato factory is likely to generate too much dust during processing which is likely to contaminate the products from the Potato factory.

Furthermore, the power connected to the factories by UMEME Ltd is insufficient to run the machinery and equipment installed. The machines require a three phase power connection.

The Accounting Officer explained that plans were in advanced stages to have the power connection to the 33 KV Line.

47.3.3 **Kasaka Mother Union Fruit Juice Project - (Nabusanke Fruit Factory)**

The establishment of Nabusanke Fruit Factory was an initiative of H.E. the President to support a group of women in Mpigi district who were processing juice using basic methods in the early 2006. The Institute was tasked to assist in setting up a modern facility with the requisite technologies and transfer of skills appropriate for juice processing in partnership with Central Buganda Diocese.
Mothers Union of Kanoni-Gomba Mpigi District. The plant is located at Nabusanke along Kampala- Masaka highway.

The following matters were observed during physical inspections;

- UIRI constructed a factory on land that was obtained by the women’s group from the Church of Uganda at Nabusanke. However, the Memorandum of Understanding between the Institute and the Church of Uganda was not availed for review.

- Although the machines were installed a year ago, there is no production at the factory due to non availability of raw materials (fruits).

47.3.4 **Mushroom Training and Resource Centre, Kabale**

Mushroom Training and Resource Centre is a community based organization registered with Kabale district authorities. The centre carries out training in empowering rural women and youth from the districts of Kabale, Kisoro, Kanungu and Rukungiri and UIRI was tasked to support the Centre.

During inspections, it was observed that although the construction work was completed, the land on which the centre is built has no title. Further, UMEME had not provided the centre with the three phase power line to enable the centre install the cold room and the autoclave machine which are used for sterilizing spawns/spores.

The Accounting Officer explained that continued follow-up with UMEME is ongoing and that they expect to get the title soon.

47.3.5 **Busia Meat Project**

UIRI entered into a Memorandum of Understanding with Busia Meat Packers to develop and equip them. During inspections, it was observed that one of the meat plant rooms is being used as a living room yet it was meant for a different
purpose. The toilet is very filthy and in a sorry state. The entrepreneur was supposed to improve on the toilet but no work had been done by the time of inspection. It was also observed that after a short period of production, the transformer blew due to overloading causing stoppage of production.

I have advised the Accounting Officer to liaise with the responsible authorities to devise a long term solution for the power outages experienced in most of the projects the Institute is supporting.

48.0 **UGANDA CANCER INSTITUTE**

48.1 **Excess expenditure**

It was noted that the Institute incurred expenditure amounting to Shs.4,198,562,620 against an approved budget of Shs.3,881,668,000, resulting into excess expenditure amounting to Shs.316,894,620. There is no evidence that authority in form of a supplementary warrant was granted as is required by the Public Finance and Accountability Act.

Management explained that the excess expenditure was as a result of transfers from Mulago Hospital and NTR collected and utilized at source.

I have advised management to always operate within the approved budget. Where additional resources are needed, virements/reallocation or supplementaries should be sought in accordance with the financial regulations.

48.2 **Domestic Arrears (Shs.225,340,260)**

A review of the Statement of Outstanding Commitments revealed that management incurred domestic arrears amounting to Shs.225,340,260 in contravention of the Commitment Control system of government that prohibits Accounting Officers from committing government beyond the funds available to the entities.
I have advised management to always strive to operate within their budgetary allocations.

### 48.3 Instrument Creating the Entity

The Instrument creating the entity is an important document that clearly spells out the nature, purpose, functions, operations, and the ownership of the entity. It was noted that there was no Act/Instrument creating Uganda Cancer Institute as a government entity.

Without such an enabling legislation, UCI may not discharge its functions effectively. Management explained that Uganda Cancer Institute is a constituent Institute of Uganda National Health Research Organization (UNRHO) created by UNRHO Act, 2009 as a research Institute. He further stated that in view of the fact that Uganda Cancer Institute now handles patient care, there is need to amend the Act to include care and training.

Management is advised to liaise with the responsible authorities in order to have the matter addressed.

### 48.4 Lack of a Corporate/Strategic Plan

It was noted that, Uganda Cancer Institute does not have a Strategic Plan in place. A Strategic Plan is supposed to spell out the long term plans of the Institute and is also a basis for the evaluation of performance of the entity. Without a strategic Plan, UCI may operate without the guidance needed to achieve its objectives.

Management explained that they were in the process of developing the strategic plan and that a draft strategic plan was already in place.

I advised the Accounting Officer to expedite the process of finalization to enable implementation of the plan.
48.5 **Staff Training Arrangements**

Uganda Cancer Institute did not have a Training Plan during the year under review, although under its Ministerial Policy Statement an amount of Shs.192,000,000 was allocated for staff training. The Training Plan would act as a guide on the training and capacity building initiatives at the Institute. Without such a plan, training activities may be carried out on adhoc basis may not achieve the expected benefits.

Management explained that a Staff training plan was being developed.

48.6 **Lack of Procurement Plan**

During the year under review, Uganda Cancer Institute did not have a Procurement Plan to guide it in the procurement of goods, works, and services. This is contrary to the PPDA regulations and may result into procurement delays and stock outs of needed supplies.

I advised management to always ensure full adherence with the procurement regulations.

48.7 **Stores Inspection**

An inspection of the Institute’s stores revealed that the stores are housed in a container with two small compartments, one serving as an office and the other as the store. In the store there were computers, stationery, medical equipment, reagents, drugs, and foodstuffs. Some items were placed on the floor. This makes them susceptible to deterioration.

In addition, there were no fire extinguishers in the stores and in the event of a fire outbreak, the institute stands a risk of losing all its stored items.

I have advised management to ensure that items are properly stored and arranged to avoid deterioration.
48.8 Underutilized/Unutilized Laboratory Equipment

Inspection of the laboratory for the Institute revealed that most of the new state of the art equipment are either underutilized or not utilized at all due to lack of reagents. Examples include the following:-

- **The Hematology Analyzer CBC**, is a machine used for blood count. The machine was supplied with a sample of test kits that were used for three months. When the samples got exhausted, no more reagents have been procured since, to carry out further tests.

- **The Chemistry Analyzer** – MEROLAB 2300 Plus, is a machine used for conducting liver functions test, renal function and cardiac marker, but this also had no reagents and was therefore not being utilised.

- **The Imuno Machine** was able to perform 89 tests but had only 4 test kits for 4 tests that came with the equipment. No additional test kits have been procured.

This implies that the Institute is not obtaining the expected benefits from the specialized equipment in place.

The Accounting Officer explained that the centralized procurement of sundries and supplies made it difficult to have these specialized items supplied in time.

I have advised management to liaise with the Ministry of Health and NMS to ensure that there are regular supplies of reagents for the lab tests to be carried out.

48.9 Non Existence of National Policy on Cancer

The Uganda cancer institute is a national referral hospital charged with the responsibility of treating referred cancer cases from all over the country. The number of cancer cases have reportedly been increasing over time. However, the county does not have a policy on cancer prevention and treatment. There is a risk that cancer cases will continue to increase thus burdening the health sector budget.
Management explained that the Ministry of Health had been informed about the matter.

I have advised management to liaise further with the Ministry of Health in order to come up with a national policy on cancer which should give direction on the management of cancer prevalence in the country.

48.10 **Procurement of Drugs**

The budget for procurement of drugs and medical sundries was reduced from Shs.1 billion to shs.500 million. 30% of this was spent at source by UCI during the first quarter, while 70% was sent to NMS for centralized procurement. However, the following matters were observed:

a. **Cost of drugs**

Centralized procurements of drugs and medical sundries was expected to result into cheaper drugs because of the volumes involved. However, some of the prices charged by NMS were higher than open market prices. For instance, Capecitabine (Xeloda) which used to be procured at 10+2 arrangement (buy 10 packs and get 2 free) at Shs.1,100,000 was billed at shs.1,275,000 by NMS.

This implies that the Institute may not be benefiting from the centralized procurement system.

I have advised management to liaise NMS and provide information that would enable maximization of value for money from the procurements.

b. **Consignment not received by UCI**

According to a letter dated 8th April from then Acting Director, to the General Manager NMS, a purported delivery on 13th January, 2010 of support medicines worth Shs.2,065,062 on invoice number 0006586 was not received by UCI. There is no evidence that this matter was followed up and concluded.
c. **Quality of drugs delivered**

Cancer drugs are potentially poisonous. They may be prescribed in combination of up to four drugs. Pharmacists reconstitute some of the drugs in two fume chambers at the Institute. Patients are administered with the drugs intravenously. For this reason, quality, timing and the right dose of drugs is paramount in the treatment of cancer. If the doctors do not get it right the first time, there may be no second chance for the patients.

It was also pointed out to the team that sometimes the wrong specifications of drugs are delivered. For instance, instead of 50 mg capsule of Thalidomide, 100mg capsules were delivered. That was twice the desired dose and yet the capsules could not be opened to reduce the contents unlike tablets that could be broken. Some other examples are listed below:

<table>
<thead>
<tr>
<th>Items ordered for by UCI</th>
<th>Items supplied by NMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pamidronate – 60mg Injection</td>
<td>Pamidronate – 90mg Injection</td>
</tr>
<tr>
<td>Vincristine – 2mg Injection</td>
<td>Vincristine – 1mg Injection</td>
</tr>
<tr>
<td>Thalidomide - 50mg Capsule</td>
<td>Thalidomide – 100mg Capsule</td>
</tr>
<tr>
<td>Capecitabine - Generic</td>
<td>Capecitabine – Very poor Quality.</td>
</tr>
</tbody>
</table>

This may lead to wastage, as the delivered drugs by NMS may not be utilised by the Institute.

d. **Partial/Selective Delivery and Erratic Supply of Drugs & sundries**

It was noted that National Medical Stores usually supplies less than half of the orders placed by UCI. For example in the order plan sent to NMS in March 2010, fifteen types out of thirty one chemotherapy drugs were supplied. The fifteen types delivered were selectively supplied leaving out other medicines like, 5-Fluorouracil, L-Asparaginase, Cytarabine, Dactinomycin, and Cyclophosphamide, which are part of essential cancer drugs for treating the most prevalent cancers like Lymphomas.
As pointed out earlier, cancer drugs are administered in combinations so supplying two drugs out of a combination of three still renders the drugs unusable.

It was also noted that X-ray films were delivered without the chemicals for developing them.

This may lead to wastage, as the delivered drugs and sundries by NMS may not be utilised by the Institute.

e. **Delayed Supplies & Stock Out of Drugs**

The following types of drugs appeared on the list of drugs which were mostly out of stock: Gemcitabine, Paclitaxel, Docetaxel, Folinic Acid Injection, Tamoxifen, L-Asparaginase, Ifosphamide, 5-Flouracil, Cytarabine, Dactinomycin, Vinblastine, Folinic Acid, Anastrozole, 6-Mercaptopurine, and Casodex.

As a result of these stock outs, a number of patients were sent home to either buy the drugs on their own or await the delivery of the required drugs by NMS.

Management explained that a meeting was being arranged with National Medical Stores to address the matters identified.

I have advised management to follow up on all the matters with NMS as well as the Ministry of Health.

48.11 **Construction of 5-Level Cancer Ward for UCI**

The Contract for the construction of a 5-Level Cancer Ward was awarded to a company at a contract sum of Shs.5,783,789,753. Following the award, there was a change of the construction site from that originally planned to another location.

Considering that the Bills of Quantities (BOQs) were drawn basing on the first location, this would ideally necessitate making adjustments to the BOQs. For
example, a provision for a wall separating this new ward from other nearby buildings is no longer necessary since it has now been moved away from them. However, the BOQs were not adjusted, despite the fact that the change of the site for the building could have financial implications.

I have advised management to undertake a review of the BOQs to assess the changes and their effect on the construction costs.

Management explained that construction was underway and new BOQ had been completed by the Consultant ready for submission to Contracts Committee. I await finalization of the process.

49.0 **UGANDA HEART INSTITUTE**

49.1 **Legal Framework**

The legal instrument creating the entity is an important document that clearly spells out the nature, purpose, functions, operations, and the ownership of the entity. It was noted that the Act/Instrument creating Uganda Heart Institute as a government entity has not been put in place. Without such enabling legislation, UHI may not discharge its functions effectively.

I have advised management to liaise with the responsible authorities in order to have the matter addressed.

49.2 **Managerial and Operational Challenges at UHI**

Uganda Heart Institute (UHI) became a Vote effective 1st July 2009 making the year 2009/10 it’s first Financial Year. However, before this development, UHI Stakeholders comprising of Mulago Hospital – providing Space & Logistics, Makerere University – Research/Training, Ministry of Health – Policy formulation and M&E, and Uganda Heart Foundation (NGO) – Solicitation for Funds & Collaboration/Networking with Donors; had established UHI as a Company Limited by guarantee with the name Uganda Heart Institute Limited. The
Company has a Board of Governors that even recruited the personnel before UHI became a Vote.

It was noted that the Memorandum and Articles of Association of UHI did not spell out the roles and responsibilities of each partner/stakeholder, which complicated matters even before the attainment of the Vote status.

With the attainment of the Vote status and the coming on board of other stakeholders (Health Service Commission, UHI Board & Public Service Commission) the following challenges have been encountered:

- Responsibility of recruiting the personnel that serve under UHI is not clear.
- Preparation of two sets of financial statements for auditing, and the accountability process for the Vote and the company.

This scenario may bring about inefficiencies in service delivery.

I advised the Accounting Officer to urgently seek for a harmonized position of the status of UHI from the government of Uganda and all the other stakeholders.

The Accounting Officer explained that this matter was being handled by the stakeholders and also the Social Services Committee of Parliament.

49.3 **Lack of an Approved Organizational Structure**

An Organizational Structure highlights the hierarchy of the entity and spells out the authority, responsibility and accountability relationships. It was however observed that, UHI operated throughout the year under review without an approved Organizational Structure. Failure to have an approved structure negatively impacts on the implementation of the Institute’s activities.

I advised the Accounting Officer to continue liaising with the stakeholders in order to have an approved structure in place.
The Accounting Officer explained that the Ministry of Public Service together with the Health Service Commission are appropriately handling this matter.

49.4 Lack of a Human Resources Department

It was observed that, the Institute does not have a Human Resource Management/Personnel Department charged with the responsibility of managing its human resource. This creates a vacuum in the management of the personnel serving the Institute. I advised the Accounting Officer to ensure that a Human Resources Department is established for the proper running of the unit.

Management explained that this unit was still under Mulago hospital but now there is a Senior Personnel Officer who will streamline the unit.

49.5 Lack of a Corporate/Strategic Plan

It was noted that, Uganda Heart Institute does not have a Corporate/Strategic Plan in place. A Corporate/Strategic Plan would ideally spell out the Mandate, Vision, Mission, and Strategic Objectives of the entity, as well as the long term and medium term plans and core functions; and how the entity discharges these functions. The plan is also a basis for evaluation of performance of the entity. Without a Corporate Plan, UHI may operate without the guidance needed to achieve its Strategic Objectives.

The Accounting Officer explained that a firm has been procured to develop a 10 year master plan to guide the development of the institution.

I have advised management to expedite the process of compiling the strategic plan.

49.6 Staff Training Arrangements

Uganda Heart Institute did not have a Training Plan during the year under review, although under its Ministerial Policy Statement an amount of
Shs.21,000,000 was allocated for staff training. The Training Plan would act as a guide on the training and capacity building initiatives at UHI. Without such a plan, training activities may be carried out haphazardly and may not achieve the expected benefits.

Management should develop an appropriate training plan for effective performance.

The Accounting Officer explained that a comprehensive human resource development plan is being implemented to address the training issues.

49.7 Irregular Budget Provision

A review of the approved budget for the entity revealed that, the items provided for under Capital Development included; Non Residential Building, Machinery & Equipment, Furniture & Fittings, and Roads & Bridges.

The provision for Roads & Bridges of Shs.150,000,000 was not explained. Construction of Roads and Bridges is not among the core functions of the Institute. This implies that there were lapses in the budgeting process.

Management is advised to budget for only those activities that fall within the core functions of the Institute.

49.8 Lack of Procurement Plan

Uganda Heart Institute did not have a Procurement Plan throughout the year under review to guide it in the procurement of Goods, Works, and Services, contrary to the PPDA regulations. This may result into procurement delays and stock outs of needed supplies.

I advised management to ensure adherence with the procurement law in future.
49.9 **Supply of Drugs and Medical Sundries by NMS to UHI**

It was noted that although the National Medical Stores (NMS) is charged with the responsibility of supplying essential drugs, the following shortcomings were observed regarding the supply of Heart medicines by NMS to UHI:

- Erratic supply of drugs
- Stock outs of drugs
- Delays in supply of drugs
- Failure to supply some drugs,
- Supply of wrong specifications of drugs and poor quality drugs.

These shortcomings in the supply of drugs could lead to loss of lives.

I advised the Accounting Officer to liaise with the Ministry of Health to review the procedure/arrangements of supply of drugs to UHI by the NMS. A desk officer specifically assigned to handle UHI matters within NMS would be a step in the right direction.

49.10 **Non Existence of National Policy on Cardio – Thoracic Related Ailments**

Despite the high prevalence of Cardio-Thoracic cases in the country, there is only one unit (i.e. the UHI) at the National Referral Level attempting to provide the services to alleviate the problem. The country does not have a National Policy on Cardio-Thoracic management which would give direction on how the prevalence should be managed.

This implies that Cardio-Thoracic cases management is being handled as part of general medical treatment of patients, a practice that may not be effective in addressing the problem.

The Ministry of Health should be encouraged to formulate a National Policy on Cardio-Thoracic related ailments.
49.11 **Project Account No. 223.214082.1**

Uganda Heart Institute Project Account No. 223.214082.1 was opened in May 2008 by Mulago Hospital on behalf of UHI at the time it was still a department of Mulago Hospital Complex. The purpose of this account was to receive funds for the development of infrastructure and procurement of equipment for UHI. The receipts to this Account were comprised of transfers from Mulago Hospital General Treasury Account that acted as a collection account for treasury releases.

It was however observed that Shs.2,060,013,297 out of Shs.4,879,000,000 (equivalent to USD.2,700,000) transferred by Treasury to Mulago hospital Account was not remitted to UHI Account. The purpose for which these funds were intended may not have been achieved.

The Accounting Officer explained that Mulago Hospital had remitted Shs.975 million to the Institute.

I have advised him to continue pursuing the additional amount from the hospital.

50.0 **UGANDA AIDS COMMISSION**

50.1 **Over Expenditure**

The Commission spent Shs.17,241,118 above the approved amounts on various items without relevant authority as outlined in the table below:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract staff salaries</td>
<td>125,668,000</td>
<td>126,750,992</td>
<td>1,082,992</td>
</tr>
<tr>
<td>Allowances</td>
<td>479,006,000</td>
<td>479,755,079</td>
<td>749,079</td>
</tr>
<tr>
<td>Staff Training</td>
<td>50,000,000</td>
<td>59,697,998</td>
<td>9,697,998</td>
</tr>
</tbody>
</table>
Management explained that a letter seeking authority for retrospective reallocation had been sent to the Ministry of Finance but no response had been received by the time of audit.

I advised the Accounting Officer to desist from unauthorised expenditure as it contravenes the budgetary control procedures and to also follow-up the matter with the Secretary to Treasury.

50.2 **Inappropriate Structure of the Entity**

A review of the current staff structure revealed gaps that may not allow the Commission to effectively handle the complex coordination activities entrusted to it at the national level. The factors affecting HIV/AIDS management have evolved over the years and UAC needs to re-establish itself to take the Lead role in the national management of HIV/AIDS as per its mandate. Although there was an organization review done in 2005 where several recommendations were made and later implemented, further review may be needed to address the new challenges in the HIV/AIDS environment. For instance the function to supervise all activities related to the control of the AIDS epidemic in the country is handled by only three people in the monitoring unit. This may not be adequate. In addition, coordination at the central, sectoral and district level is hampered by clash of mandates in the coordination and management of the AIDS response at various levels.

According to the Internal Auditor’s reports, there were also delays in implementing activities despite the reported increase in the HIV/AIDS prevalence rate in the country, a problem the Commission attributed to low staffing resulting from an inappropriate structure.
The lack of capacity is also evident from the fact that development partners released over shs.3bn for activities of the UAC but had to hire a private firm to manage this fund on behalf of the Commission sighting incapacity by the UAC to manage the funds.

The Accounting Officer reported that a steering committee has been inaugurated by UAC to review the UAC Board, secretariat and its functions to address the inappropriate structure of the commission.

I have advised the Accounting Officer to work closely with the stakeholders to expedite the organizational review with a view of enhancing the performance of the Commission.

50.3 **Staffing Position**

Although the organization structure provides for 54 posts, only 46 posts were filled during the period under review leaving a staffing gap of 8 members. It was also noted that the staff turnover appears to be high. In the period under review, 5 members left the organization representing a turnover rate of 10%.

The Accounting Officer explained that the recruitment process has started and that the issue of staff turnover was being discussed by the board.

The Accounting Officer is advised to expedite the recruitment process and to immediately address the issue of high staff turnover to enable the entity handle its mandate effectively.

50.4 **Funding Arrangements for the Entity**

It was noted that only 60% of the Commission budget is financed directly by the Government. The balance is funded by various development partners. The sustainability of the entity activities in the event that the donor support significantly declines is a big threat to the continuity of the entity.
The Accounting Officer is advised to continue liaising with the Ministry of Finance, Planning and Economic Development regarding the sustainability of funding arrangements for the entity.

50.5 **Undelivered Generator**

In my previous report, I indicated that although the entity had fully paid a firm for supply of a generator, this has remained undelivered to date.

The Accounting Officer explained that several efforts were made by seeking help from the Attorney General and police but all had not yet yielded positive results.

The Accounting Officer is advised to maintain interest in the case and ensure that the amount is recovered.

50.6 **Domestic Arrears**

The entity incurred domestic arrears amounting to Shs.169,489,700 in the financial year under review contrary to the requirements under the commitment control system that deters accounting officers from committing government when there are no funds.

The Accounting Officer attributed this to a foreign exchange loss while purchasing vehicles and a photocopier, failure of some donors to honor their pledges and also the high costs of repairing their very old fleet.

I advised the Accounting Officer to ensure strict adherence to the commitment control system in future.

50.7 **Assessment of Delivery of Outputs**

It has been noted that management prepared progress reports only up to the 3rd quarter of the financial year under review. There is no evidence that the 4th quarter report as well as the annual report were compiled by management. This
implies that the assessment of performance of the entity could not be adequately undertaken during the audit. In addition stakeholders were not informed as to whether the entity fully implemented all the agreed activities during the year under review. Although the Accounting Officer had promised to have the reports prepared, the reports were not availed by the time of this report.

The Accounting Officer should ensure that the Annual Report and the progress reports are prepared in time and circulated to stakeholders as required by the Regulations.

50.8 Follow up of the Forensic Audit Report on the Commission Activities for 2008/09

The development partners funding UAC (comprising of Irish Aid, Danish International Development Agency, Department for International Development (UK), United States Government, Swedish International Development Agency and Italian Cooperation), commissioned a forensic audit investigation on the Commission activities for the period 31st July 2008 to 30th June 2009, which was undertaken by M/s KPMG, Certified Public Accountants. During the year under review, I carried out a follow up of the findings and recommendations that were made in the report and the status is summarized here below:

<table>
<thead>
<tr>
<th>Forensic Report Findings and Recommendations</th>
<th>Observations and Recommendations</th>
<th>Management Action</th>
<th>Follow-up Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observations and Recommendations</td>
<td>Management Action</td>
<td>Follow-up Remarks</td>
<td></td>
</tr>
<tr>
<td>Management Controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Controls</td>
<td>• It was noted that there was lack of commitment by UAC management and top leadership in establishing and maintaining effective management controls. This was illustrated by the failure to implement recommendations of several Organization Development (OD) reviews carried out at UAC. The last OD on reviewing and streamlining the long and short term technical assistance support was carried out in 2006. It was recommended that UAC.</td>
<td>• UAC is undertaking Organizational Development (OD) and Institutional Arrangement exercise; where issues of governance, structural and management will be addressed. The office of the President is in charge of this exercise.</td>
<td>This exercise had not yet been concluded by the time of the audit.</td>
</tr>
</tbody>
</table>

| 526 |

This exercise had not yet been concluded by the time of the audit.
should consider the implementation of recommendations of previous OD reviews.

- It was established that all long term Technical Advisers (TAs) reported directly to the Director General and not to the Directors with whom the TAs should be working. As a result there were multiple instances where the TAs:
  - identified the activity to carry out;
  - requisitioned funds for the activity as per the IAWP;
  - procured items required for the activity;
  - facilitated the activity; and
  - provided accountability for the funds.

In numerous instances, the other relevant departments were not involved in the above activities and there was no independent check or verification of the activity outcome and related costs.

- There were inadequate controls to monitor the performance of the TAs, consultants and UAC staff on activities funded by the Partnership Fund.
  It was recommended that there should be adequate review and monitoring of activities carried out by short and long term TAs.

- There were multiple instances where TAs carry out activities to the exclusion of UAC staff and/or withhold information on activities that they carried out hence negating one of the principal objectives of engaging TAs which was to build institutional knowledge and capacity within UAC.

<table>
<thead>
<tr>
<th>Management Action</th>
<th>The Concept Note under Organizational Development is addressing all issues related to structural and management including the internal Audit function.</th>
</tr>
</thead>
<tbody>
<tr>
<td>This will be addressed by the OD. In addition, management and staff training has started in team building and management.</td>
<td>This exercise had not yet been concluded by the time of the audit.</td>
</tr>
</tbody>
</table>

This will be addressed by the OD. In addition, management and staff training has started in team building and management.
The internal auditor reports to the Director General, and this could impair his independence. It was recommended that the internal audit function should report to a body such as the Board Audit Committee to ensure its independence.

<table>
<thead>
<tr>
<th>Financial Controls</th>
<th>Accountability for losses</th>
<th>Travel and per diem expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The audit identified a number of staff who were to account for costs, acts and expenses incurred by the Commission amounting to Shs.268,979,623</td>
<td>There was lack of clear mechanism for reviewing accounting of imprest advanced to staff. It was recommended that:-</td>
</tr>
<tr>
<td></td>
<td>A total of shs.3,702,056 has since been recovered. The rest of the amount queried is disputed as never paid out altogether or as genuinely paid out.</td>
<td>- There should be monitoring and detailed review of accounting for imprest and money advanced to staff.</td>
</tr>
<tr>
<td></td>
<td>Recovery of shs.3,702,056 was verified during the audit. Refer to Appendix 1 for audit conclusions on specific amounts mentioned in the forensic audit report</td>
<td>- Harmonisation of staff allowances.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Improve monitoring and actual staff participation in field activities. This can be done by implementing time sheets as a performance management tool or by using external/independent random checks by audit teams.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Improve monitoring on movement of UAC motor vehicles by use of daily motor vehicle logs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Review of fuel claims for reasonableness against mileage and motor vehicle usage logs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Internal Audit section has been beefed up with more staff to ensure that among other responsibilities, the following is also done:-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Monitoring and detailed review of accounting for imprest and funds advanced to staff by post auditing activity reports, checklists, payment vouchers and supporting accountabilities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Monitoring on movement of UAC motor vehicles by use of daily motor vehicle logs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Review of fuel claims for reasonableness against mileage and motor vehicle usage logs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- There is strict adherence to revised circular standing instructions from Ministry of Public Service issued in December 2008.</td>
</tr>
<tr>
<td>Stocks</td>
<td>Controls which were lacking</td>
<td>Management Action</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------</td>
<td>-------------------</td>
</tr>
</tbody>
</table>
| - Record keeping was poor  
- Recording and verification of the movement of goods in and out of UAC stores, was not being carried out. |  | - Effort is being dedicated to the area of stock cards to ensure that they are always up to date.  
- The Internal Audit Department has been strengthened by recruiting a Senior Internal Auditor and all goods received currently are verified by the Internal Audit section.  
- Increased supervision by the senior internal auditor through surprise checks on the stock balances and directing a physical stock count to ensure that they are always reconciling. | - The Senior Internal Auditor has been recruited. |
| It was recommended that:  
- Stock cards should be kept up to date  
- There should be independent verification of goods received and released by the Internal Auditor.  
- Random stock checks should also be undertaken. |  |  |  |
| Double payments of allowances to staff | Controls which were lacking | Management has recruited an M&E Officer who among other duties is charged with ensuring that activities done do not overlap and are properly planned according to schedule.  
- The role of the Internal Audit department has been expanded to include monitoring and verification of the actual costs versus the budget, (pre auditing exercise undertaken).  
- Management has appointed a qualified technical person in the Finance Department to monitor expenditure against budgeted figures/releases. | An M&E officer and a Senior Internal Auditor have been recruited. |
| - There was no proper monitoring of activities to ascertain staff participation.  
It was recommended that:  
- There should be monitoring of costs against budgeted costs to reduce instances of large variances  
- Improve the planning, budgeting and forecasting processes  
- Ensure that costs are approved against specific budget lines prior to spending.  
- Internal audit should monitor budgetary spending  
- Travel and per diems should be monitored for compliance with policy |  |  |  |
<p>| Procurement | Controls which were lacking | Supplier vetting and pre-qualification has been done by PPDA |  |
| - Supplier vetting and appraisals |  |  |  |</p>
<table>
<thead>
<tr>
<th>Controls which were lacking</th>
<th>Plans to develop a Finance Manual are in place. This will clearly stipulate the period within which staff are required to account for petty cash.</th>
<th>Management has accounted for all petty cash funds withdrawn during the year, of shs.3,124,800.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imprest</td>
<td></td>
<td>The Finance manual had not yet been completed by the time of audit.</td>
</tr>
<tr>
<td>Period within which staff are required to account for petty cash or imprest was not stipulated.</td>
<td></td>
<td>This amount was verified as appropriately accounted for.</td>
</tr>
<tr>
<td>No follow-up of long outstanding accountability.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It was recommended that:-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- The Financial manual should be revised to provide for time limits during which staff are required to account for imprest.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consider instituting measures of recovery of long outstanding amounts through salary deductions after expiry of time allowed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petty Cash</td>
<td>Skewed over</td>
<td>A senior Internal</td>
</tr>
<tr>
<td>Controls which were lacking</td>
<td>Strengthening Internal control systems visa-viz</td>
<td></td>
</tr>
<tr>
<td>There was no control over</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
accountability for petty cash vouchers. It was recommended that there should be a review of claims made by staff to ensure that the costs, quantity and quality of items purchased is reasonable.

Petty Cash management/usage.

Heads of Departments have been encouraged to come up with Petty Cash requisitions in time and retire the accounts.

Implementation of IAWP (Integrated Annual WorkPlan)

Controls which were lacking
Expenditures exceeded the amounts budgeted for. It was recommended that expenditure incurred should be maintained within the approved budget. Officers should be held to account for over-budget expenditures.

No funds have been availed.

THE FOLLOWING PEOPLE WERE TO ACCOUNT FOR LOSSES IN THE FORENSIC AUDIT REPORT

<table>
<thead>
<tr>
<th>Names</th>
<th>Reason for accounting</th>
<th>Amount (shs)</th>
<th>Follow-up remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Coordinator Global Fund</td>
<td>Payment to NCASM supervisors</td>
<td>12,937,500</td>
<td>Management explained that the amount had not been included in the contract, but this was paid for work but outside the contract. No refund was therefore made. <strong>Audit Conclusion</strong> Evidence from the forensic audit confirms that the amount is recoverable, since it was not part of the contract.</td>
</tr>
<tr>
<td>Payments to NCASM drivers who were never engaged by UAC</td>
<td>8,400,000</td>
<td>Management insists that the drivers were not over paid. They received shs.35,000 per night as they are entitled for the days spent there. No refund was therefore made</td>
<td><strong>Audit Conclusion</strong> Evidence from the forensic audit confirms that the amount is recoverable, since it was not part of the contract.</td>
</tr>
<tr>
<td>Claims by the Coordinator which he wasn’t entitled to</td>
<td>2,250,000</td>
<td>Shs.1,909,528 was recovered.</td>
<td><strong>Audit Conclusion</strong> Recovery of the balance of shs.340,472 is awaited.</td>
</tr>
<tr>
<td>Possible inflated cost of photocopying</td>
<td>1,851,300</td>
<td>Management insists that all work involved was genuinely paid for. No refund was therefore made.</td>
<td><strong>Audit Conclusion</strong></td>
</tr>
</tbody>
</table>

531
<p>| The Coordinator Partnership Affairs | Claims for work possibly not done | 2,587,500 | <strong>Audit Conclusion</strong>&lt;br&gt;The amount inflated and irregularly paid should be dealt with according to Section 43 of the PFAA&lt;br&gt;Management insists that the payment was for work done in 10 districts. |
| Claims for fuel | 1,104,429 | Shs.737,538 was refunded. |
| The Coordinator HIV/AIDS Resources | Claims for work possibly not done for 6 days | 1,170,000 | <strong>Audit Conclusion</strong>&lt;br&gt;Recovery of the balance of shs.115,000 is awaited. |
| Claims for fuel | 1,513,000 | Management insists that fuel used for the work done in 10 districts. Management is of the view that this amount is not recoverable. |
| The Administrative Assistant Procurement | Possible collusion with suppliers to inflate the cost of printing documents | 133,461,350 | <strong>Audit Conclusion</strong>&lt;br&gt;i. Where audit confirmed that the RFP was used, the PPDA Act was used and the case can be left to rest i.e. for shs.75,521,500.&lt;br&gt;ii. The case of shs.3,145,050, was micro in nature.&lt;br&gt;iii. In two procurements of shs.54,794,800 where the PPDA was not followed the officer may be liable for punishment under Section 95 of the PPDA Act. |
| Engaging and consequent payments to Datanet.com Link as the second internet provider | 68,340,540 | Management explained that the suppliers were right fully engaged to provide upgraded internet services&lt;br&gt;Amount could not be refunded as a result. |
| The Director Finance and Administration | Approval of payments to Wilken 7 months after engaging | 22,429,004 | <strong>Audit Conclusion</strong>&lt;br&gt;Recovery of this amount is not possible. The service providers were providing a service under a service level agreement which was legally binding. |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Claims for perdiem and administrative cost for NCASM</th>
<th>Amount</th>
<th>Audit Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matovu Anthony</td>
<td>Another service provider</td>
<td>2,587,000</td>
<td>Management explained that the amount was paid for field work. He was asked to perform a specific field work and was paid for it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Audit Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Evidence from the forensic audit confirms that the amount is recoverable.</td>
</tr>
<tr>
<td>Muhwezi Justus</td>
<td>Claims for perdiem and administrative cost for NCASM</td>
<td>2,587,000</td>
<td>Management explained that the amount was paid for field work. He was asked to perform a specific field work and was paid for it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Audit Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Evidence from the forensic audit confirms that the amount is recoverable.</td>
</tr>
<tr>
<td>Swwizen Kyomuhendo</td>
<td>Claims for perdiem and administrative cost for NCASM</td>
<td>2,587,000</td>
<td>Management explained that the amount was paid for field work. He was asked to perform a specific field work and was paid for it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Audit Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Evidence from the forensic audit confirms that the amount is recoverable.</td>
</tr>
<tr>
<td>The Consultant Planning</td>
<td>Claims for perdiem and administrative cost for NCASM</td>
<td>2,587,000</td>
<td>Management explained that the amount was paid for field work. He was asked to perform a specific field work and was paid for it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Audit Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Evidence from the forensic audit confirms that the amount is recoverable.</td>
</tr>
<tr>
<td>Andrew Balyeku</td>
<td>Claims for perdiem and administrative cost for NCASM</td>
<td>2,587,000</td>
<td>Management explained that the amount was paid for field work. He was asked to perform a specific field work and was paid for it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Audit Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Evidence from the forensic audit confirms that the amount is recoverable.</td>
</tr>
</tbody>
</table>

**Total** 268,979,623

50.9 **The Inter-Governmental Authority On Development - Regional HIV/Aids Partnership Program (IGAD/IRAPP)**

(a) **Inter Account Borrowings**

It was noted that there were several inter account borrowings between IGAD and GOU accounts. Amounts totaling Shs.88,038,642 were borrowed from IGAD
to fund GOU activities. By the close of the period only Shs.84,217,242 had been recovered leaving an outstanding balance of Shs.3,821,400.

Such inter account borrowings complicates the accountability process and also impacts negatively on the timely implementation of the planned activities of the project.

Management is advised to desist from this practice in future. In addition, the IGAD account should be refunded with the outstanding amount.

(b) **Lack of Internal Audit Reviews**

The internal audit department is required to conduct reviews of the internal control systems of the program and issue periodic reports. This would play an important role in testing whether the procedures are being adhered to and keeping senior management abreast with how well the resources are being utilised. However, there is no evidence, in terms of periodic reports, that internal audit played this role. Failure by the unit to carry out reviews implies that internal control weaknesses within the project may not be detected in time for prompt corrective action in strengthening the controls.

Management should ensure that internal audit undertakes reviews of program activities and issue reports accordingly.

(c) **Non Acknowledgement of URA Remittances**

During the period under review, management remitted a total of Shs.4,825,653 and Shs.1,433,266 to URA as PAYE and WHT deductions respectively. However it was noted that the tax remittances were not acknowledged by URA. Without acknowledgement receipts I could not verify whether the funds were actually received the Authority.
Management should ensure that all remittances to URA are acknowledged by way of receipts. In addition, the receipts for the amounts in question should be obtained and availed for audit examination.

(d) **Expenditure Lacking Accountability/Supporting Documents**

It was noted that expenditure amounting to Shs.12,525,000 meant for per diem for participants for several workshops lacked supporting documents in terms of attendance sheets. In addition, Shs.5,120,000 in respect of funds for safari to Busia for mini launch of IGAD project also lacked any form of supporting documents. This could be a result of management laxity in enforcing timely accountability for the advances.

I could not confirm whether the amounts had been paid to the intended beneficiaries and that the activities were actually undertaken.

Management should ensure that all cash advances to individuals for programme activities are fully accounted for.

(e) **Delayed Release of Funds**

According to the Memorandum of Understanding, remittances to the districts and the implementing partners were supposed to be done in two equal installments per year. It was however noted that funds were remitted late, as exemplified below:

<table>
<thead>
<tr>
<th>District/IP</th>
<th>Amount (Ushs)</th>
<th>Date received</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOC –REV-MINISTRIES</td>
<td>41,540,000</td>
<td>12/04/2010</td>
<td>Funds meant for first half 2010</td>
</tr>
<tr>
<td>Amuru District</td>
<td>45,584,000</td>
<td>18/06/2010</td>
<td>Funds meant for first half 2010</td>
</tr>
<tr>
<td>Busia district</td>
<td>88,706,250</td>
<td>02/06/2010</td>
<td>Funds meant for first half 2010</td>
</tr>
</tbody>
</table>

This implied that the implementing partners were effectively left with less than two months to undertake the activities for the period.
Delayed remittance of funds affects the timely implementation of the planned activities for the period which could impact on the achievement of the intended objectives.

Management should ensure timely release of funds to all implementing partners to enable timely implementation of Programme activities.

(f) **Budget Analysis**

It was noted that the program did not undertake budgetary analysis during the period under review. In addition, no Vote Book was maintained to track expenditures and ensure that no over expenditures are made. This weakens controls over the budget.

Managements is advised to open up a vote book henceforth and also undertake budgetary analysis.

(g) **Manual Accounting System**

It was noted that the program does not use a computerized accounting system in its finance department. The use of a manual accounting system complicates the book keeping process and the generation of accounting reports.

Management is advised to obtain an appropriate accounting package to ease the book keeping process.

(h) **Fixed Asset Management**

It was noted that the program does not maintain a fixed assets register to record the fixed assets it owns. For example, during the period under review, several data collection tools and a container were procured but these are not recorded anywhere. This weakens controls over such assets.

Management should open up a fixed assets register hence forth.
(i) **Acting Appointment for the Position of IGAD Focal Person**

The Memorandum of Understanding signed between Uganda Aids Commission and IGAD provides for the position of a project focal person responsible for the general coordination and direction of the project activities. It was however noted that the position has remained without a substantively appointed officer for a period of 11 months. The substantive officer appears to have absconded upon failure to report back on expiry of the leave period in December 2009. As a temporary measure, management appointed an officer from another project on acting capacity for the period to 31st August 2010. By the time of audit the period was about to expire and no replacement had been arranged.

In such circumstances, effective implementation of the project’s activities could be hampered due to the extra load of responsibilities on the officer in acting capacity.

Management is advised to expedite the process of recruiting a substantive IGAD focal person in accordance with the provisions in the MOU.

(j) **Maintenance of records**

According to the MOU, UAC must maintain separate subproject records and accounts containing current information and documentation relating to common operations with IGAD/IRAPP, including copies of the subproject agreements, vouchers evidencing the receipt of all remittances, cash or any other credit to UAC IRAPP account. It was however noted that the project maintains one set of records for the IGAD funds and the UNHCR funded activities. The UNHCR funding relates to the care and maintenance for Kyakka II refugee camp. This can complicate the accountability process for the separate funding sources.

Management should comply with the MOU provisions and maintain separate records to enhance proper accountability to the two funders of the program.
50.10 **Inspections**

(a) **Busia Hotspot**

**Busia District**
- **Unutilized Funds**

An amount of Shs. 88,706,250 was advanced to Busia district local government in June 2010 for implementation of the IGAD/IRRAP work plan for the first half of the year 2010. However, by the time of the audit inspections in August 2010 the funds were still held intact on the Busia District Health account NO. 0140041247501 maintained at Stanbic Bank, Busia branch.

Failure to utilise the funds creates doubt as to whether the necessary preliminary arrangements were made to ensure the implementation of the project by the district.

With four months to the end of the reporting period all the planned activities for the period may not be implemented which could lead to failure to achieve the intended objective within project life span.

Management of the project is advised to expedite the process of implementing project activities.

---

**Friends Of Christ Revival Ministries**
- **Discrepancy in Work Plans**

A review of the work plans revealed significant differences between the IRAPP Country work plan for 2010 work plans/budgets held by UAC and the IGAD work plan obtained from the Implementing partner (friends of Christ revival ministries) in terms of output indicators and activity components. For instance, the Implementing partner was paying monthly staff salaries amounting to Ushs.1.7m
from the project budget but the activity had not been provided for under the project work plans and budget. The anomaly could be a result of management’s failure to have a working memorandum of understanding and dissemination of the agreed work plans.

With such discrepancies in the implementation budgets, the project’s intended objectives may not be fully achieved.

There is need by management to harmonize the work plans and disseminate them to the implementing partners in order to achieve the common goals and objectives.

(b) **Amuru Hotspot**

- **Implementation of Planned Activities**

Of the total amount of Ushs.45,584,000 advanced to the district for the implementation of planned activities for the first half of the year, only Ushs.19,366,600 had been spent by the time of inspection in August 2010 leaving un-utilised amount of Ushs.26,217,400. Its however noted that a number of activities still remain unimplemented notably; provision of office accommodation and the procurement of an implementing partner for the HIV/AIDS at the Bibia health centre hot spots. This causes implementation bottlenecks to the core activities of the project at the centre. The Management of the district should expedite the implementation of all planned project activities.

51.0 **UGANDA MANAGEMENT INSTITUTE**

51.1 **Funds Not Accounted For**

Section 176 of Treasury Accounting Instructions provides that Accounting Officers should retain in their offices serially numbered and properly filed for audit purposes and references, vouchers supporting the entries in their books. However, reconciliation carried out between the cashbook and payment vouchers
revealed that expenditure totaling Shs.123,699,001 was not supported by payment vouchers. In absence of the vouchers and supporting documentation, I was not able to verify the validity and authenticity of the expenditure.

The Accounting Officer acknowledged the lost vouchers and promised to continue with the search. He also indicated that management was in a process of reporting the loss to the Accountant General as per the requirements of the law.

51.2 **Implementation of the Monetized Car Benefit**

The governing council (at its meeting of 20\textsuperscript{th} July 2006) approved the monetisation of the car benefits for entitled directors. However, the policy was not implemented until the year 2009. At its 39\textsuperscript{th} meeting of 25\textsuperscript{th} June 2009, the matter was again tabled and the scheme together with its operational guidelines was re-approved under minute 26.12.

Under the scheme, the directors were allowed to obtain an advance based on their monetized benefits for 5 years to allow them buy vehicles, own and maintain them. Review of the scheme and the implementation guidelines however revealed the following matters:-
a. **Non compliance with the approved implementation guidelines**

It was noted that some clauses of the implementation guidelines were not followed. For example:

- Payments for the purchase of vehicles were supposed to be made directly to the dealers of the vehicles selected by the beneficiaries. However, cash was instead paid to individuals as shown below:

<table>
<thead>
<tr>
<th>Voucher No</th>
<th>Cheque No</th>
<th>Amount (UShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV-ARDV000155</td>
<td>100188</td>
<td>141,000,000</td>
</tr>
<tr>
<td>PV-ARDV000149</td>
<td>100182</td>
<td>47,250,000</td>
</tr>
<tr>
<td>PV-ARDV000150</td>
<td>100183</td>
<td>17,735,018</td>
</tr>
<tr>
<td>PV-ARDV000150</td>
<td>100183</td>
<td>32,464,982</td>
</tr>
</tbody>
</table>

There is a risk that not all the funds advanced were utilised for purchase of vehicles.

- The scheme also provided for a monetized fuel benefit. Under normal circumstances, this would be reflected on the payroll. However, this was not done with the effect that tax amounting to Shs.6,105,600 was not deducted as shown below:

<table>
<thead>
<tr>
<th>Officer</th>
<th>Monthly Fuel Allowance (shs)</th>
<th>Annual Fuel Allowance (shs)</th>
<th>Tax at 30% (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG</td>
<td>652,000</td>
<td>7,824,000</td>
<td>2,347,200</td>
</tr>
<tr>
<td>DFA</td>
<td>522,000</td>
<td>6,264,000</td>
<td>1,879,200</td>
</tr>
<tr>
<td>DPSA</td>
<td>522,000</td>
<td>6,264,000</td>
<td>1,879,200</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td><strong>6,105,600</strong></td>
</tr>
</tbody>
</table>

This amount is recoverable and payable to Uganda Revenue Authority.

I have advised the accounting officer to ensure that the guidelines are properly followed in future.
b. **Conflict with the terms and conditions of the employment contracts**

It was noted that whereas the scheme provides for car benefits to the directors to purchase vehicles, the terms and conditions in the appointment letters continue to indicate a related benefit in form of transport allowance. The two provisions may be abused if they are not properly harmonized. I have advised management to review the terms and conditions in the employment contracts to take care of the monetised car benefit scheme.

51.3 **Budget Performance**

An analysis of performance against the budget indicates that there was growth in revenue generation from Shs.6,990,860,059 in 2008/2009 to Shs.8,779,411,418 during the year under review (2009/2010). It was also noted that the planned recurrent activities for the year, were to a large extent implemented and related outputs achieved. However capital development could not be financed due to lack of funding. It was noted that only Shs.178,767,068 was spent against a budget of Shs.1,286,675,000 hence a performance gap of shs.1,107,907,932 (86.1%).

Inadequate capital funding may force the Institute to limit the admissions due to limited infrastructure. The Institute may also not able to replace its assets most of which have become obsolete.

In his response, the Accounting Officer indicated that UMI has set capital development among the funding priorities in the budget for financial year 2011/2012 to improve the infrastructure.

I have advised management continue liaising with the ministry of Finance to increase funding for capital development budget to the finance development activities at the Institute.
52.0  MAKERERE UNIVERSITY

52.1  Financial Statements

52.1.1  Excess Expenditure

The Statement of Appropriation Account indicates that the actual expenditure of the University was Shs.124,621,947,750 against an approved budget of Shs.114,270,356,408 resulting into excess expenditure of Shs.10,351,591,342 which lacked relevant authority.

Excess expenditure indicates breakdown of controls over budgetary expenditure.

The Accounting Officer attributed the excess expenditure to payment of domestic arrears during the year and the salary increase of 5 per cent on the government component which was not part of the budget.

Management should always ensure that spending is in accordance with the approved budget. Meanwhile the excess expenditure should be regularized in accordance with the Public Finance and Accountability Act.

52.1.2  Outstanding advances

Included in the statement of financial position is Shs.5,707,391,033 reflected as outstanding advances accumulated over the years. The amounts are a result of funds that were advanced to the various units and members of staff but remained unaccounted for at the year end. The existence of huge amounts of monies in advances is an indication of laxity by the management in enforcing accountability.

Management should ensure that all advances are accounted for promptly or recovered incase of non compliance.
52.1.3 **Budget Deficit (Shs.4,196,551,828)**

During the year under review, the University's budgeted expenditure totaled to Shs.118,466,908,236 against budgeted revenue of Shs.114,270,356,408 resulting into a budget deficit of Shs.4,196,551,828. However, the source of financing for the deficit was not explained. Failure to balance the budget distorts budget implementation.

The Accounting Officer explained that management expected extra funding in form of supplementary from Government which was not received.

I advised the Accounting Officer to always have a budget which is balanced and with realistic targets.

52.1.4 **Domestic arrears**

The University incurred commitments during the year amounting to Shs.4,756,768,761 in addition to a total of Shs.26,595,588,839 from previous years. The current amount in domestic arrears amounts to Shs.31,350,395,056. The accumulation of payables is a result of committing the University beyond the available resources a practice that contravenes established commitment control procedures.

Management should operate within the resource envelope available to avoid escalation of arrears.

52.1.5 **Lack of a comprehensive fixed assets register**

It was noted during the audit that the University does not have a comprehensive fixed assets register that contains the full list of the assets of the University. There were also assets under various projects run by the University whose assets were not disclosed/declared by the University Management. It was also noted that the University has a number of obsolete assets.
In absence of a comprehensive assets register, the University assets including vehicles are prone to misuse and theft without detection.

The Accounting Officer explained that the process of putting in place a comprehensive assets register was ongoing.

I advised the Accounting Officer to put in place a Register and proper asset management policies. In addition, assets that were no longer useful should be considered for disposal.

52.2 Irregular appointments of the Vice Chancellor and Deputy Vice Chancellors

According to the Universities and Other Tertiary Institutions Act, the Vice Chancellor of the University should be appointed by the Chancellor on recommendation of the University Council whereas the Deputy Vice Chancellors are appointed by the Chancellor on the recommendation of the University Senate with the approval of the University Council. It was observed that the appointments of the current Vice Chancellor and Deputy Vice Chancellors were made by the Chancellor in October 2009 in acting capacities for an indefinite period pending amendment of the Act.

The Act however does not provide for appointments of the mentioned officials in acting capacities. This renders their appointments for over a year by the University Council irregular. Furthermore, although their appointments in acting positions require them to be evaluated every six months to assess their performance, there was no evidence to show that the two officers were evaluated and reappointed.

The Accounting Officer explained that the appointment was made based on the advice of the appointing authority pending the amendment of the Act.
I advised that effort should be made to expedite the amendment of the Act to enable proper appointments to be made. Meanwhile necessary performance assessments of the two officials need to be made.

52.3 **Delayed Activities under the Strategic Plan**

The University has a strategic plan that covers the period 2008/09-2018/19. Included in the strategic plan is the action plan matrix that provides details of the various goals, strategies and the time of commencing the various activities under the strategic plan. A review of the action plan matrix indicated that there were various activities that had been scheduled to begin in 2008 but had not begun by the time of audit in December, 2010. These include:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Indicator</th>
<th>Management Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Institutionalize enrollment planning</td>
<td>Student Facility Ratio and staff: student ratio</td>
<td>The Quality Assurance Unit had been strengthened by turning it into a Directorate. Once the Directorate of Quality Assurance is fully staffed, it will embark on enrolment planning</td>
</tr>
<tr>
<td>b. Create strategic linkages with professional bodies and with other stakeholders in offering experimental learning to students.</td>
<td>% of employers who highly rank Makerere University Graduates.</td>
<td>Field attachment was incorporated in the University Curricular. The University will be signing a Memorandum of Understanding with professional bodies and organizations that provide field attachment site to students.</td>
</tr>
<tr>
<td>c. Introduce cross cutting courses for all students</td>
<td>% of employers who highly rank Makerere University Graduates.</td>
<td>Senate approved three cross cutting courses in November 2010 which include gender studies, development studies and communication skills.</td>
</tr>
<tr>
<td>d. Equip lecture rooms and laboratories with modern instruction facilities</td>
<td>Not defined under the strategic plan.</td>
<td>The University was waiting funding in form of a loan from African Development Bank (AfDB) secured by the Government through the Ministry of Education and Sports. This funding will be used for rehabilitation and equipping of the University laboratories.</td>
</tr>
<tr>
<td>e. Mainstream laboratory services in research and University</td>
<td>Number of research laboratories.</td>
<td>Funding is awaited from AfDB.</td>
</tr>
<tr>
<td>(f.) Involve stakeholder participation in the University policy agenda.</td>
<td>Level of participation of the private and public sectors in University policy and curricular development.</td>
<td>This activity was envisaged to be coordinated by Makerere University Private Sector Forum (MUPSF). The status of the forum was currently under review.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(g.) Create a resource pool of University expertise for the public, private sector to utilize.</td>
<td>As above.</td>
<td>- do -</td>
</tr>
<tr>
<td>(h.) Increase student: Book ratio from the current 1:7-1:22</td>
<td>Student: book/journal ratios.</td>
<td>The University was constrained by under funding.</td>
</tr>
<tr>
<td>(i.) Develop library resource utilization strategy</td>
<td>Not defined under the strategic plan.</td>
<td>The University Library was conducting library literacy sessions to students with the view to imparting to them information retrieval skills</td>
</tr>
<tr>
<td>(j.) Develop and operationalise the maintenance plan for the University estates/works.</td>
<td>Not defined under the strategic plan.</td>
<td>The Estates and Works Departments in the process of developing this plan</td>
</tr>
<tr>
<td>Outsource non-core functions of the University.</td>
<td>Number of organizational changes related to mandates and organogram.</td>
<td>Lack of funding to cover retrenchment costs</td>
</tr>
<tr>
<td>Review and standardize to accredit student accommodation facilities under private sector.</td>
<td>Rating of support facilities and services by staff and students.</td>
<td>No response</td>
</tr>
</tbody>
</table>

I advised the Accounting Officer to ensure that the activities under the strategic plan are implemented as planned in order to enable the University achieve its long term objectives.
52.4 **Makerere University Land**

The University Secretary commissioned a committee to carry out a physical assessment and verification of the University land on 15th February 2010. The committee was to verify the duplicate land titles and physically verify all the University land with a view to identifying encumbrances, encroachments and any other problems and challenges regarding the land. The committee came up with a report on the status of all the University land. A review of the report reveals the following:

The University has got land in Makindye, Kololo, Katanga, Bwaise, Makerere North, Student site Bombo road, Ex-Kiwanuka parcels on Muganzi Awongererwa road, Sir Apollo Kagwa road, Katalemwa on Gayaza road, Makerere main campus, Kabanyolo, Kasangati, Lira, Mbale, Masindi, Kibaale and Mpigi.

Forty land titles were reviewed of which six were found to be in good status, three had expired leases, and 31 needed to be updated. Of the 40 land titles, only eight were registered in the names of Makerere University Council, the remaining 32 were yet to be registered.

The land title for Makerere main campus was not availed because it got lost in 2006, but there was no evidence to show that management had made any effort to have it replaced. Also noted were various disputes regarding University land as shown below:

- The Buganda Kingdom claims half of the Makerere main campus land and a heritage site at Makindye.
- There was a dispute over ownership of Katanga Land.
- Plots 34 and 36 Prince Charles Kololo were fraudulently leased to Ramez Nassour and fenced off.
- Ex-Kiwanuka plot of land on Muganzi Awongererwa road was claimed by a Pastor and the Pastor had constructed Fiona Hostel and Gospel Assembly Church on the land.
The land housing Livingstone Hall was under lease and the University was paying ground rent of Shs.15,000,000 per annum. The registered mailo owners expressed interest to sell the land at a cost of Shs.10 billion (negotiable).

The various disputes affecting the Makerere University land appear to have been going on for a long time without necessary interventions by Management. There is a risk of the University losing most of its land unless management takes the issue of land management seriously and works towards resolving the land disputes and obtaining land titles for all its land.

I advised the Accounting officer to secure all the university land by obtaining the land titles, and renew those leases which could have expired. Management should also put in place proper policies and guidelines for management of University land.

52.5 **Travel Abroad**

According to the Human Resource Manual, every travel undertaken by a member of staff is supposed to be authorized by the University Council, the Vice Chancellor or the Director, Human Resources. An employee granted permission to travel has to submit a report about the trip and any necessary financial accountability upon return. Examination of records relating to payments for travels undertaken by the various members of staff during the year under review indicated that a total of Shs.208,766,058 was paid to staff to cater for travel abroad. However, the expenditure was not supported with documents evidencing travel.

The Accounting Officer responded that the supporting documents such as invitation letters, authorization of travel, length of stay and all others were available on individual’s files. I was however not availed with the respective files for verification.
52.6 **Payments of Tax**

During the year under review, tax deductions amounting to Shs.993,586,034 and US$37,090 were remitted to URA. However, I was not availed with acknowledgement receipts from URA.

In absence of acknowledgement receipts we could not confirm that the taxes were received by the Authority.

I advised Management to follow-up the tax remittances with URA.

52.7 **Functional Organizational Structure**

An organization structure should reflect the functions and operations of an entity and defines the various supervisory roles. However, the organization structure of the University does not reflect the actual functions and operations of the University. There are a number of reporting lines that do not reflect the functions they report to. For instance, the structure provides for the position of the Chief Internal Auditor but it does not indicate clearly where the Chief Internal Auditor reports.

Lack of a proper structure and defined organogram could negatively impact on the operations of the University.

The Accounting Officer explained that a review of the University’s organization structure was being carried out by a Committee and its full report was expected in June 2011. The outcome of the review is awaited.

52.8 **Appointments of Temporary Administrative Staff**

According to Makerere University Human resources Manual sec 2.6.3 (i) "All temporary appointments should be made by the Vice Chancellor on the recommendations of appointments and promotions committee of the unit in need through the Director Human Resources, provided such appointments do not
exceed 12 months." However, contrary to the manual, management employed staff on temporary terms by renewing their contracts after every six months for a period of five years or more. There appears to be lack of continuous reviews of the staff appointments by the human resource department.

Keeping staff on temporary appointment terms for long violates the human resource manual and may result in staff de-motivation and unnecessary litigations in future.

The Accounting Officer explained that the Human Resource manual was new, and a review was being made of all temporary appointments with a view of regularising those found appropriate by April 2011. The outcome of this action is awaited.

52.9 **Staffing Levels**

The University is required to appoint staff according to the establishments approved by Council. Records availed indicated that the University recruited staff in certain positions over and above the approved establishment, while 982 positions were vacant in various University units.

The Accounting Officer attributed the low staffing position to inadequate funding.

I advised the Accounting Officer to liaise with relevant authorities with the view of having the posts filled.

52.10 **Staff in Acting Positions**

According to Makerere University human resource manual, there are two types of appointments in acting capacities namely; where one acts in a vacant position, and where one acts in the place of an incumbent who is temporarily out of office. For a person to be in an acting position, he/she should receive a written letter of appointment to act for a continuous period not exceeding one year.
Examination of selected personnel files revealed that a number of senior personnel had been acting as heads of departments, deans and directors beyond the regulatory one year. For example the head of the University hospital had been acting for 22 years. Appointing staff in acting capacity beyond the stipulated periods of one year violates the provisions of the human resource guidelines of the University. It also creates uncertainty among staff, which may negatively impact on their performance.

I advised the Accounting Officer to ensure that appointments in acting capacities are in accordance with the provisions of the human resource guidelines.

The Accounting Officer explained that the prolonged acting was caused by lack of suitable applicants for substantive appointments especially in the case of Deans and Directors. He further indicated that staff in acting positions were going to be reviewed and have them regularized where appropriate.

52.11 **Makerere University Private Sector Forum**

(a) **Non-availability of records**

Makerere University Private Sector Forum (Forum) was started in 2006 following its approval by the University Council at its 105th Meeting. However, records relating to its operations were not availed for examination. This limited the scope of my audit.

The Accounting Officer promised to avail the records but by the time of writing this report in March 2011 no records had been availed for audit purposes.

(b) **Improper appointment of the head of the forum**

A review of University Council minutes of the 117th meeting held on 17th December 2009 revealed that the head of the forum was appointed by the Vice Chancellor and given an open ended contract, instead of being appointed by the appointments board. According to his appointment letter, he was supposed to
earn a monthly package of Shs8.2 million which is not provided for in the University salary structure that was approved by University Council. In the meeting of the University Council held on 17\textsuperscript{th} December, 2010 and 13\textsuperscript{th} December, 2010, it was resolved that the arrears for the head of the forum would not be paid since the activities of the forum were considered irregular and were not supposed to be funded by the University. However, contrary to council’s resolution, the head was paid a total of Shs.41,890,560 in settlement of his arrears, unpaid transport costs, fuel and airtime expenses.

The Accounting Officer explained that the payment was authorized by the University Council after accountability of the previous funds but evidence of the authority was not made available for verification.

(c) **Un authorized lending of funds**

Records of the Faculty of Economics and Management indicated that Shs.34,597,500 was lent to the Executive Director of Makerere University Private Sector Forum-MUPSF. However, on 26\textsuperscript{th} October, 2009, an amount of Shs.10,967,400 was recovered from the forum leaving a balance of Shs.23,630,100 unrecovered. The authority under which the Faculty lent funds to the forum was not availed.

The outstanding balance of Shs.23,630,100 should be recovered and unauthorised lending of funds by the Faculty discouraged.

52.12 **University Library**

(a) **Irregularities in procurements**

Examination of procurement records relating to expenditure amounting to Shs.66,682,085 for the financial year under review revealed the following irregularities:-
(b) **Lack of Contracts Committee approval**

A number of procurements above the threshold of Shs.2,000,000 were carried out without approval of the contracts committee. Such a practice amounts to flouting of the procurement procedures and renders such procurements irregular.

(c) **Motor vehicle repairs not certified by the Transport Officer**

It is good practice for all motor vehicle repairs to be certified by the transport officer before payments are made. However, payments for motor vehicle repairs were made without the Transport Officer’s certification. This meant that such repairs were not post-inspected to confirm that the repairs were done satisfactorily.

(d) **Lack of competition**

Various procurements were not subjected to competition for transparency, accountability and fairness to achieve value for money. Single sourcing from pre-qualified and non pre-qualified firms contravenes Sec.45 and 46 of the PPDA Act and Regulations 118(3) and 143.

The Accounting Officer explained that the Librarian was cautioned for not adhering to accounting and financial procedures.

I advised the Accounting Officer to strengthen the monitoring of the University units to ensure compliance with financial and accounting regulatory requirements.

(e) **Payments not acknowledged by URA**

Remittances to Uganda Revenue Authority in respect of PAYE and WHT by the Library amounting to Shs.103,875,156 lacked acknowledgement receipts. In absence of acknowledgement receipts from URA, I was unable to confirm if URA received the funds.
52.13 **Institute of Statistics and Applied Economics**

(a) **Irregular Employment of Contract Staff**

According to Makerere University Human Resources Manual 2.6.3 (i) (iv) “All temporary/administrative appointments should to be made by the Vice Chancellor on the recommendation of the appointments and promotion Committee of the Unit through the Director Human Resources, provided that such appointments do not exceed 12 Months” and “In case of a constituent college, Principal of college can appoint temporary staff on the recommendation of the Dean of a particular Faculty/School/Institute and such appointment should be reported to the Vice Chancellor and Director Human Resources for noting”.

Contrary to the above, records availed for audit revealed that Shs.126,338,530 was paid to contract staff that were recruited and appointed by the Director ISAE instead of the Vice Chancellor. Most of these contract staff had been employed beyond 12 months contrary to the Human Resource Manual.

The Accounting Officer explained that the Directorate of Human Resource was requested to regularise the appointments. I advised Management to always adhere to the requirements of the University Human Resource Manual in recruitments.

(b) **Deposits from students**

The University receives funds from students that are usually paid in advance and held as deposits. These advances are held by the University pending delivery of services required by the students. Records availed for audit indicated that Shs. 203,066,508 was received by the Institute as deposits. However, the deposits were utilized by the Institute before the required services were delivered without authority. In addition, although the deposits were reflected in the accounts records, the schedule providing the details of the deposits were not availed for audit.
I advised Management to always seek authority before utilizing deposits.

52.14 **Proposed Construction of the School of Education Building**

Regulation 105(1) of the PPDA Regulations requires the procuring and disposing entity to initiate any procurement transactions or activities only when funds are available. Contrary to the above regulation, the procurement for the construction of the School of Education building worth Shs.26,565,217,439 was initiated and the availability of funds was confirmed on PP Form 20 by the Dean when the School had saved Shs.2 billion which is 8 per cent of total funding required for the project.

Further, review of the procurement process revealed the following matters:

The contract was awarded to a Company at a contract sum of Shs.26,565,217439 during the Contracts committee meeting held on 28th August 2008. The completion period was set to be 179 calendar weeks and the notice of best evaluated bidder was accordingly displayed on 29th August 2008. The contract could however, not be signed because of insufficient funds.

Negotiations were held between the University and the Company on 24th September 2008 where the Company offered some discounts based on certain conditions. The discounts were however forfeited because the University did not have funds to commence the project.

In the University Secretary’s letter of 5th January 2009 to the Company, it was mentioned among other things that the University could not afford to proceed with the project due to budget constraints. He informed the Contractor that the contract award would remain valid until the appropriate time during the next financial year 2009/2010. By the time of audit in November, 2010, the contract agreement had not been signed. It was evident that the University initiated the procurement when it did not have funds.
I advised the Accounting Officer to ensure that procurement commitments are entered into after confirmation of availability of funding.

52.15 **Commercial Units**

(a) **Economic value of commercial units**

The University has three commercial units that were established to operate as commercial enterprises to generate profit for themselves and the University. The current operational guidelines require commercial units to remit 10 per cent of their net profit to the University. A review of the accounts of the commercial units for the financial year under review indicated that their net profits were as follows:

<table>
<thead>
<tr>
<th>Commercial Unit</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Printery</td>
<td>74,634,063</td>
</tr>
<tr>
<td>Guest House</td>
<td>45,513,584</td>
</tr>
<tr>
<td>Building Unit</td>
<td>(18,733,065)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>101,414,582</strong></td>
</tr>
</tbody>
</table>

This implies that Shs.10,141,458 was payable to the University from the operations of the three commercial units.

It was further noted that, the commercial units were operating from the premises of the University, consuming the university utilities in form of water, electricity and security, yet not paying for these services. This has an effect on the profitability of the commercial units reported in their financial statements.

(b) **Lack of procurement guidelines for commercial units**

According to PPDA Act 2003, all procurements should be subjected to competition in order to achieve Value for Money. It was noted during the audit that, procurements worth Shs.341,496,355 for raw materials, machine repairs, motor vehicle repairs and office equipment by the University Printery were not subjected to competition, neither were the service providers pre-qualified.
The Accounting Officer explained that the Commercial Units were in the process of getting accreditation as an alternative procurement system under PPDA. I advised the Accounting Officer to expedite the process.

(c) **Indebtedness to the commercial units**

The University and its various Faculties and Institutes owed three Commercial Units a total of Shs.942,817,070, as at 30th June, 2010, representing approximately 82 per cent of total debtors as shown below:-

<table>
<thead>
<tr>
<th>Unit</th>
<th>Amount in Shs.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Unit Ltd</td>
<td>68,624,588</td>
<td>79.75%</td>
</tr>
<tr>
<td>Printery</td>
<td>733,548,135</td>
<td>100.00%</td>
</tr>
<tr>
<td>Guest House</td>
<td>140,644,347</td>
<td>85.23%</td>
</tr>
<tr>
<td>Total</td>
<td>942,817,070</td>
<td></td>
</tr>
</tbody>
</table>

Although the Accounting Officer promised to recover the funds through the University Bursars office, it was not done. Failure to clear debts by the University and its departments is likely to affect the smooth operations of the commercial units.

Management should ensure that the debts owed to Commercial Units are settled.

52.16 **Makerere University Guest House**

(a) **Internal control weaknesses**

Standard internal control practices require that there are proper procedures governing record keeping, authorization, custody and approval. A review of the guest house register revealed that although the register captures the name and date of arrival of guest, there were cases where the details of the guest, date of departure and signature of the guest were not captured. This made it difficult to ascertain the number of days the guests stayed at the guest house and the amount of revenue collected. It was further noted that the person who was maintaining the guest register was the same person who was receiving money
for accommodation. This weakens control over receiving and recording of revenue.

The Accounting Officer explained that due to the size of the guest house, it was not possible to segregate duties.
I advised the Accounting Officer to put in place proper checks and balances to minimize any shortcomings in the operations of the guest house.

(b) **Loss of cash**

According to Sec 24(1-4) of the Public Finance and Accountability Regulations, 2003, any public officer who becomes aware of any loss shall at once report the loss to the appropriate Accounting Officer indicating the nature, amount and circumstances of the loss, shortage, damage or destruction. It further states that the Accounting Officer will report the losses in writing, to the Secretary to Treasurer, copied to the Accountant General and Auditor General and any loss whether restituted or not shall be reported promptly, and no report may be deferred on grounds of conducting an investigation.

The cash status report for the financial year end revealed that, there was a closing cash balance of Shs.53,427,763. However according to the board of survey report on cash, only Shs.8,646,914 was found in the safe leaving cash totaling Shs.44,780,849 unaccounted for. This loss was not reported as required by the financial regulations.

The Accounting Officer explained that the case was reported to Police but the funds had not been recovered.

The Accounting Officer should ensure that the loss is properly reported and institute measures for the recovery of the lost cash.
(c) **Employment of temporary staff in key posts**

The guest house was employing 21 temporary staff whose contracts were being renewed every three months. These included a receptionist who was in charge of cash collections at the guest house, purchasing officer who had spent 6 years working at the guest house, the debt controller who had worked for 10 years as an accounts assistant. These posts are sensitive to the guest house and should have been held by staff on permanent terms. The continuous employment of personnel on temporary terms may jeopardize the performance of the guest house.

The Accounting Officer explained that the Board of Commercial Units had agreed that all necessary positions held by temporary staff be submitted for advertising and recruitment.

I advised the Accounting Officer to ensure that there is adherence to the human resource manual in all the units of the University.

(d) **Working capital**

According to the financial statements for the period ended June 2010, the current assets balance was Shs.270,665,305 while the current liabilities balance was Shs.377,660,359 resulting in a deficit of Shs.106,995,054 in working capital. This excluded a loan of Shs.82,668,622. There is a risk that the guest house may not be able to continue operating in case creditors call up their credit facilities.

The Accounting Officer explained that the strategic performance of commercial units was being reviewed for its improvements. The outcome of this action is awaited.

(e) **Over Expenditure**

According to the financial statements of the guest house for the period under review, management overspent on some budget items as indicated below:-
<table>
<thead>
<tr>
<th>Item</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle expenses</td>
<td>8,800,000</td>
<td>14,882,561</td>
<td>6,082,561</td>
</tr>
<tr>
<td>Transport</td>
<td>7,200,000</td>
<td>19,544,213</td>
<td>12,344,213</td>
</tr>
<tr>
<td>Staff welfare</td>
<td>2,000,000</td>
<td>11,009,900</td>
<td>9,000,000</td>
</tr>
<tr>
<td>Extra load allowances</td>
<td>33,845,845</td>
<td>40,224,278</td>
<td>6,378,431</td>
</tr>
<tr>
<td>Security</td>
<td>3,480,000</td>
<td>5,518,000</td>
<td>2,038,000</td>
</tr>
<tr>
<td>Business Promotion</td>
<td>1,500,000</td>
<td>3,919,500</td>
<td>2,419,500</td>
</tr>
<tr>
<td>House Keeping</td>
<td>9,500,000</td>
<td>11,154,052</td>
<td>1,654,052</td>
</tr>
<tr>
<td>Telephone and fax</td>
<td>1,440,000</td>
<td>2,782,695</td>
<td>1,342,695</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41,259,722</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Over expenditure on budget items is irregular and weakens budgetary controls.

The Accounting Officer should ensure that the management of the guest house spends according to the approved budget.

(f) **Un remitted NSSF deductions**

According to the NSSF Act, all social security deductions from salaries of employees should be remitted to NSSF within 15 days after the end of the month. It was noted during the audit that management had deducted a total of Shs.14,536,893 from employees salaries in a period of nine months.

However, in absence of acknowledgement receipts I could not confirm that the funds were received by NSSF.

Non-remittance or delayed remittance of NSSF contributions may attract penalties leading to nugatory expenditure to the employer.

The Accounting Officer explained that management thought that the amounts related to temporary staff were not subjected to NSSF contributions but the NSSF audit advised to the contrary.

The Accounting Officer was advised to ensure that the outstanding NSSF contributions are promptly remitted to the fund to avoid penalties.
52.17 **University Printery**

(a) **Lack of guidelines for outsourcing of jobs**

The University Printery outsourced jobs worth Shs.39,919,065, without proper guidelines by the Board of Commercial units that oversee their operations. The Accounting Officer had promised that the guidelines would be formulated and followed by the commercial units, but, by the time of audit in December, 2010, the guidelines had not been formulated. Lack of such guidelines provides room for manipulation of the outsourcing process.

The Accounting Officer explained that a comprehensive system was being developed to solve the problem.

(b) **Non performing debtors**

During the year under review, printery debts amounting to Shs.221,949,457 were non performing as evidenced by debtors balance of Shs.79,687,897 remaining stagnant since 2002. These included University departments, individuals and other organizations. I was not availed with documentary evidence to show that efforts were being made by the printery to recover the debts.

Efforts to recover these debts should be stepped up as most of them seem recoverable.

(c) **PAYE & WHT not deducted at source**

The printery paid sitting allowances, honoraria and machine repairs to the tune of Shs.13,154,665 without deducting PAYE and WHT amounting to Shs.1,369,060. Non compliance with the tax laws is an offence that attracts penalties by URA.

It was also noted that Shs.4,966,020 was paid to URA in respect of PAYE that had not been deducted from the sitting allowances of the Board Of Commercial
Units members. However, I was not availed with evidence to confirm that recoveries were made from the recipients.

The Accounting Officer promised to affect the recoveries.

(d) **Lack of acknowledgment by URA**

A total of Shs.80,263,654 was deducted as PAYE and WHT and paid to URA. I was however not availed with acknowledgement receipts from URA.

In the absence of acknowledgement receipts I could not confirm that the funds were received by the tax body.

Management was advised to ensure that acknowledgement receipts are received from URA.

**53.0 MBARARA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

53.1 **Over expenditure**

Section (37) of the Public Finance and Accountability Regulations, 2003, requires the Accounting Officer to control and oversee all expenditure under his/her control and ensure that the authorised budget is not exceeded. It was noted that although Shs.1,708,000,000 was appropriated by Parliament under the item ‘other operating expenses’ for the year under review, actual expenditure amounted to Shs.1,833,145,181 resulting into unauthorised over expenditure of Shs.125,145,181.

Management explained that the over expenditure arose as a result of increase in food prices.

Management is advised to always seek appropriate authority to re-allocate funds from one budget line to another, before spending takes place.
53.2 **Tax Payments on Purchase of a Vehicle**

A company was paid Shs.80,654,750 for the supply of one double cabin pick-up vehicle. The award was for Us$.38,225 taxes inclusive (quoted as import duty $4,903 and VAT $5,831).

Ideally, taxes are allocated and paid through the Gross Tax payment system. However, the above tax payments were effected from the normal releases to the University. Settling this tax obligation from normal releases could have adversely affected the University cash flows.

The Accounting Officer explained that he paid taxes from normal releases because he had not budgeted for payment of gross tax during the year.

I have advised him to liaise with the Accountant General and have all taxes settled through the Gross tax receipts and payments account as required by Treasury guidelines.

53.3 **Un-remitted NSSF**

Section 14 (1) of the NSSF Act stipulates a penalty of 10% against contributing employers who fail to pay to the fund the statutory contributions by the end of the month following that for which the relevant wages are paid. A further penalty of 10% shall be imposed if the contributions have not been remitted after the sixteenth day of each month after the initial penalty. Records show that by the close of the financial year, a total of Shs.339,611,525 remained unremitted to NSSF. Late remittances attract penalties in form of interest which may result into nugatory expenditure.

Management explained that this liability relates to the period July 2009 to September 2009 as a result of Ministry of Finance failure to remit its 5% component on time.
I advised management to liaise with Ministry of Finance and have the liability cleared to avoid future penalties from NSSF.

53.4 **Receivables/Debtors**

At the close of the financial year, the receivables balance was Shs.1,288,441,646 (compared to Shs.1,474,721,230 as at 30\textsuperscript{th} June, 2009). The receivables consist of mainly un-paid students’ fees. It was however noted that even with this huge amount of receivables, the university lacks a recovery plan to minimize the accumulation of these debtors. It was also established that the University has no policy in place to guide the approval, management, and write off of student debts. This presents a risk of growth in the amount of debts which may be difficult to recover in future.

Management is advised to streamline the debt management system to avoid such huge accumulation of debtors.

53.5 **Payments to Former Owners of University Inn**

Included in the payables is an amount Shs.420,000,000 payable to the former owner of University Inn. This amount has been outstanding for quite a long time. Management explained that the funds to clear the arrears have always been available but payment has been hampered by ownership wrangles which are now in courts of law. A ruling on the rightful owners to be paid is still awaited.

On further verifications, it was observed that only Shs.150,000,000 had been put aside on the Housing Finance Bank account number 0112530251700 and secured as a fixed deposit. This implies that the University would have to mobilise an additional amount of Shs.270 million required for the purpose after the court ruling.

I advised management to follow up the case and have the amount settled.
53.6 **List of Pre-Qualified Firms**

The PPDA Regulation 126(6) and guideline 1/2005, requires the list of pre-qualified providers to be up-dated periodically, where pre-qualification is for a group of contracts. Contrary to this provision, the University had not up-dated the list of pre-qualified firms since 2007. The list that was being used was approved by the contracts committee in their 55th and 57th meeting held on 20th September, 2007 and 20th December, 2007 respectively. This weakness was also raised by the PPDA in their procurement report on the entity for the year 2007/08 with a recommendation that the PDU should periodically up-date the list of pre-qualified suppliers. However, this recommendation was not implemented.

Management explained that the list of pre-qualified firms is yet to be up-dated and that a plan was underway to annually renew this list to allow for competition and take advantage of any favorable changes in the economic environment.

Management is advised to undertake prequalification of providers and update the list accordingly.

53.7 **Procurement of Textbooks**

Management authorized the transfer of Shs.120,082,743 from the Government Release Account to the Academic Registrar Account number 0140053337501 for opening a Letter of Credit for importation of text books. The funds were committed under various faculties as follows:-

<table>
<thead>
<tr>
<th>Faculty</th>
<th>Amount (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of computer science</td>
<td>4,768,375</td>
</tr>
<tr>
<td>Faculty of science</td>
<td>48,677,703</td>
</tr>
<tr>
<td>Faculty of Medicine</td>
<td>34,472,550</td>
</tr>
<tr>
<td>Faculty of Development Studies</td>
<td>32,164,115</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120,082,743</strong></td>
</tr>
</tbody>
</table>
It was noted that the funds were committed at the closing date of the financial year and at the time of audit, letters of credit had not been opened six months after committing the funds and the text books had not been delivered.

I advised management to always properly plan for their procurements.

54.0  KYAMBOGO UNIVERSITY

54.1  Improperly Maintained Ledgers

The ledgers which formed the basis for preparation of the Financial Statements were not properly maintained. A reconciliation of the ledgers and the cash analysis book revealed significant discrepancies. While the revenue ledgers had a net overstatement of Shs.1,351,018,160, the expenditure ledgers had a net understatement of Shs.164,447,896. No explanation was provided regarding this anomaly.

These discrepancies have a material effect on the figures reflected in the financial statements.

Management should have the discrepancies investigated, and adjustments made to the financial statements.

54.1.1  Understated Payables

The figure of payables reported in the statement of Financial Position of Shs.11,589,006,413 is understated by Shs.973,186,072. It was noted that while the correct opening balance was Shs.13,464,724,169, a figure of Shs.12,491,538,097 was instead captured causing the understatement. No explanation was provided for this understatement.

Management was advised to have the misstatements investigated.
54.2 **Expenditure Not Accounted for**

54.2.1 **Advances**

A total of Shs.235,446,650 advanced to staff to carry out various university activities during the financial year under review, and imprests amounting to Shs.7,136,965 remained unaccounted for, contrary to financial regulations. I was not able to confirm that the funds were used for the intended purpose.

Delayed submission of accountabilities can lead to falsification of documents and loss of public funds.

Additionally, included in the expenditure unaccounted for is a sum of Shs.10,650,000 advanced for activities relating to intelligence which was not properly explained. In his response, the Accounting Officer promised to follow up with the matter.

I advised the Accounting Officer to take appropriate measures to ensure full accountability or recovery of the funds from the concerned officers.

54.2.2 **Missing expenditure vouchers**

During the year under review, expenditure vouchers amounting to Shs.26,410,467 were not presented for audit. I could therefore not ascertain the purpose for which the funds were expended and whether the expenditure represented an appropriate charge to the university's accounts.

Management was advised to have the expenditure investigated and appropriate action taken.

54.3 **The Role of Vice Chancellor Vs the Accounting Officer**

The Public Finance and Accountability Act, 2003, provides that the Secretary to Treasury shall designate an accounting officer by name and in writing and that the accounting officer shall control and be personally accountable to parliament.
for the regularity and propriety of the money applied by an expenditure vote. Further still, the Universities and other Tertiary Institutions Act assigns the role of Accounting Officer to the University Secretary.

However, a review of payment processing system revealed that payments approved by the University Secretary (Accounting Officer) are subjected to further review and approval by the Vice Chancellor. There appears to be a conflict between the two offices in relation to the boundaries of responsibility and the extent to which the VC can exercise his supervisory role over the Accounting Officer.

It was explained that the Vice Chancellor believes that his actions are in accordance with section 31(i) (a) of the Universities and other Tertiary institutions Act 2001, which states that the VC shall be responsible for the academic, administrative and financial affairs of the University.

In order to avoid conflicts between the University Secretary and the Vice chancellor, I recommend that the provisions of the Universities and Other Tertiary Institutions Act should be reviewed and harmonised with the provisions of the PFAA regarding the appointment of accounting officers.

54.4 **Schedule of Management Meetings**

Review of the minutes of council and other university meetings revealed that the University Council had 17 meetings during the financial year under review, while there were other weekly meetings of the Financial Management Committee (every Monday), Top Management (every Tuesday), and Operations Committee (once in a fortnight). Having three days in a week being occupied by meetings in addition to 17 council meetings where some of the university officials have to also attend appears to be on the higher side especially if the agenda of such meetings are long.
In a Council Minute 1/5/2010, it was noted by council that management could have handled most of the issues being raised for discussion in council.

I have advised management to review and streamline the schedule of meetings so as to ensure efficiency.

54.5 **Weaknesses in Procurement**

54.5.1 **Record keeping at the PDU**
Section 91 of the Public Procurement and Disposal of Assets regulations requires all entities to file all post-contract documents. These documents would include invoices, delivery notes, copies of payment vouchers and all those documents relating to contract management. It was however noted that these documents were missing on all the files sampled for audit.

This is an indication of weaknesses in record management in the Procurement Unit of the University.

I have advised the accounting officer to ensure that the respective documents are always kept on the procurement files as required by the procurement regulations.

54.5.2 **Procurement of Motorised Tricycles**

A total of Shs.17,000,000 was paid to a local firm for supply of two tricycles (3-wheels, 3-seater). A review of the procurement file revealed that, 4 firms had been invited to submit bids. However, only one firm returned the bid and was eventually awarded the contract by the University’s Contract Committee on 28th Jan 2010.

The following matters were observed:-

There was no evidence on file to show that the four firms were issued the bid documents.
Review of the evaluation report revealed the following:

(a) The evaluation report was signed by two members from the PDU contrary to S.169 (3) and (5) of the Public Procurement and disposal of Assets Regulations, which provides for the minimum number of three members. This implies that the evaluation process for this procurement did not fully comply with the evaluation procedures.

(b) During the evaluation, the firm’s bid was found to be non compliant with some terms of the solicitation document. For example the solicitation document specified the engine capacity required of 400 cc and a 12 months warranty, whereas the bidder quoted for engine capacity of 175cc and 6 months warranty.

It was noted that during commercial and technical evaluation, the original conditions were waived in favour of the bidder on grounds that the 12 months warranty was immaterial and that a higher engine capacity was unrealistic.

This waiver was irregular given the fact that the firm was the only one that returned the bid document.

- It was also noted that the bidder was not listed among the firms of approved service providers.

The above matters indicate that the procurement process was shrouded with irregularities which could have eliminated competition and therefore not ensure value for money.

Management has been advised to always adhere to the requirements of the PPDA regulations.

54.5.3 Use of inappropriate procurement methods

Section 46 of the PPDA Act, requires that all public procurement should be conducted in a manner that maximizes competition. PPDA Regulations further provide that single sourcing should be used only where exceptional circumstances prevent the use of competition. Exceptional circumstances are
provided in the 4th schedule of the PPDA Act. Contrary to these provisions, the University preferred to carry out some procurements using single sourcing/direct procurement method without proper justification. Examples include two procurements (supply of furniture for the VC’s office and supply of computer consumables) worth Shs.25,092,713 that were made using the direct procurement method without due justification. The use of direct procurement may not guarantee achievement of value for money.

I have advised the Accounting Officer against the use of uncompetitive methods of procurement that may deny the university the opportunity to get value for money from the service providers.

54.6 **Follow up of PPDA Recommendations**

During the year 2009/2010, PPDA carried out an investigative audit into irregularities in the procurement process at Kyambogo University and a report was issued in March 2010. This followed a normal audit report that was issued in November 2008.

Review of the reports indicated that a number of irregularities were identified and recommendations made. However there is no evidence to show that the recommendations made have been implemented. This implies that management does not take the matters seriously.

In his response, the Accounting Officer indicated that procedures to implement the recommendations have since begun by asking all officers implicated in the report to provide explanations and that appropriate action will be taken where one does not respond.

I have urged management to ensure that the recommendations in the reports are implemented.

54.7 **Weaknesses in Human Resource Management**

A review of the Human Resource function revealed the following matters:-
a. **Lack of staff induction**

The University recruited 67 members of staff during the financial year under review. However there is no evidence that an Induction was carried out to ensure effective absorption of staff. This affects the new staff performance level and development.

The Accounting Officer explained that a formal induction course would be arranged for the staff in question.

b. **Promotion of staff**

Contrary to best practice which requires that staff should be given an opportunity to be assessed in a formal interview, 200 members of staff were selected for promotion without being subjected to any form of interview. As a consequence result some members of staff expressed dissatisfaction with the process. This practice should be discouraged as it affects the morale and productivity of the staff who have missed out on getting promoted.

The Accounting Officer explained that a Directorate of Human Resource has been established, which will ensure that in future promotion best human resource practices are followed in the personnel management function.

c. **Performance appraisal**

It was noted that staff performance appraisal was not carried out during the year under review. This implies that performance gaps could not be easily ascertained with a view of devising corrective measures.

In his response, the Accounting Officer explained that a process has started to ensure that performance appraisal is carried out beginning with Financial Year 2011/2012.
54.8 **Staff Development/Training**

During the financial year under review, the University spent a total of Shs.471,580,183 on staff training. It was however, noted that contrary to the training policy in force, members of staff who obtained sponsorship were not bonded and some have left after attending the courses. This implies that the university has not benefited from the training that was offered and paid for such staff.

In his response the Accounting Officer explained that management has since put in place a mechanism to ensure that a bonding agreement is signed before sponsorship is extended.

I have advised the university management to follow the training policy in order to benefit from the services of the trained staff.

54.9 **Overpayment of Salaries**

Government increased salaries of staff by 5% at the beginning of the financial year under review. The increment was meant for only employees on the public service payroll, excluding the university employees engaged on contract terms. The salaries for contract staff are governed under their respective terms of contracts.

Review of the payroll revealed that Ministry of Finance applied the increment across the board to all staff on the University payroll including those staff employed on contract by the university, causing an overpayment of salary amounting to Shs.70,127,132.

I have advised the accounting officer to have all amounts overpaid recovered from the respective employees.
54.10 **Inadequate Records Management**

Whereas information management is fundamental to the operations of any organization, a review of the management functions at the University revealed the following matters:-

a. The University lacks a proper archiving system. There is no policy and guidelines on how the records should be archived for future reference. Physical inspection revealed that files containing past records are just damped anywhere and most of them have either been lost or damaged due to poor storage.

b. The University has no qualified person designated for this function and the activities related to this function are not provided for in the University budget.

This implies that the university does not seem to take this function as a priority.

A Records Manager with appropriate skills should be recruited and a secure place designated for the establishment of a modern archive to handle the university’s records. Additionally, an archiving policy and related guidelines on information management should be developed to guide staff on matters relating to management of records.

The Accounting Officer has indicated that management will develop a policy and related guidelines on Information Management systems and will ensure that the policy and guidelines come into effect in the financial year 2011/12. He has further indicated that the University will establish a unit of Records and Information Management under the office of the University Secretary with effect from FY 2011/2012.

54.11 **Manual Financial Management Systems**

The University still uses a manual system to manage its financial records and information. It was noted that whereas the use of IT has been recommended in
the previous audit reports, the matter has not been addressed. Maintenance of manual accounting systems is not only tedious but also susceptible to errors in a complex organisation like Kyambogo University.

The Accounting Officer explained that the Accountant General was in the process of developing software to be used by all Public Universities in Uganda. He further indicated that a contract has since been awarded to a firm to reactivate the Navision Financial software, which was acquired at the time of merger, to be used as the Accountant General finalises the procurement of an appropriate one.

I have advised management to ensure that the matter is handled expeditiously to address the shortcomings in the management of financial information in the University.

54.12 **Assessment of Delivery of Outputs**

A review of the annual work plan for the year under review revealed that several planned activities were not accomplished by the end of the year. These included the following:-

a. Networking of faculty of vocational studies and installation of Internet connectivity.

b. Development of a Master Plan.

c. Resurfacing of 750 meters of Cavers Crescent.

d. Construction and rehabilitation of main gates.

e. Fencing of the main University Campus with Chain Link.

f. Rehabilitation of residential staff houses.

g. Re-roofing of Nanziri Hall.

h. Re-roofing of Rippon A.

Failure to undertake activities according to plan hampers achievement of the strategic objectives.
The Accounting Officer attributed the shortfall to delays in the procurement process. He further indicated that management has taken action on a number of these activities during the current financial year, 2010/2011.

I have advised management to ensure that all activities are always carried out according to plan.

54.13 **Follow up of Internal Audit Recommendations**

During the financial year 2009/2010 internal audit at Kyambogo University carried out a number of audits some of which were routine audits done on quarterly basis while others were investigative. In all the audits, important findings were established and recommendations made to management.

However it was noted that while management’s attitude towards Internal Audit has improved; the reports generated are not given the priority. It was noted that internal audit reports are not exclusively and exhaustively discussed but rather they are included on management’s agenda like any other ordinary issues. This has meant that most of the issues are either not discussed or are delayed. This leads to most of the recommendations not being implemented.

It was also noted that the University does not have an Audit committee that would handle the Internal Audit recommendations as required by the Public finance and Accountability Act. Below is a summary of internal audit issues outstanding at the writing of this report.

<table>
<thead>
<tr>
<th>TITLE OF THE REPORT</th>
<th>FINDINGS</th>
</tr>
</thead>
</table>
| Verification of tenancy of University houses (6th Sept, 2010) | - Six houses were occupied without formal allocation  
- Some allocations lacked evidence of housing committee approval  
- Houses that fall vacant are sometimes not reported and they end up being illegally occupied.  
- 21 houses were found occupied by members of staff who have either retired those whose contracts have expired or those that have left the university service.  
- Suspected illegal structures were found erected around the official ones by the occupants. |
| Quarterly report for the period April – June 2010 | - Some members of staff proceed on leave without obtaining approval from the University Secretary as required by the terms and condition of service.  
- Approval process of existing draft policies and developing of new ones is very slow. Lack of policies limits the authority of auditors.  
- Lack of operational manuals |
| Report on assets and liabilities of the public cafe (23/6/2010) | - No records were maintained in accounts department in respect of debtors and creditors of the café  
- The café was indebted to the tune of Shs.6,130,100  
- As at 7th June, university departments owed the public café Shs.35,323,300 |
| Report on record keeping and maintenance of accounting books by finance department | - Delays in updating of cashbooks and carrying out bank reconciliation  
- Vote books were incompletely posted with some important information not provided e.g. payment details, date, authorizing officers initials etc  
- While an effort is being made to have ledgers captured on spreadsheets, they were not properly maintained. The auditor noted that lack of ledgers leads to compromise of the integrity of F/S and loses could be made in double payments due to lack of debtors and creditors ledger.  
  - Inadequacies in the filing system  
  - Lack of segregation of duties |
| Matters to be addressed 20th Aug 2009 | - Some operations of the university lack clear policies. As a result there are inconsistencies and lack of control. The following were identified as areas that either lack policy guidelines or the policy lacks clarity:  
  i) Student work scheme. The university has always assisted needy students by employing them during the holidays but each department pays its decided rates. Audit recommends that these rates should be harmonized  
  ii) Lack of clarity on who is entitled to lunch allowance.  
  iii) Policy on insurance is not clear. Only the vice chancellors vehicle is insured  
  iv) Medical schemes available are not clear  
  v) Staff development, recruitment policy,  
  vi) Code of conduct. |

In his response, the Accounting Officer explained that management has submitted a proposal for the establishment of an Audit Committee of Council, which will be entrusted with reviewing the internal audit reports and monitoring the implementation of recommendations.

I explained to management that given the important role of internal audit in appraising management’s systems and procedures, and ensuring that internal controls are instituted and working properly, it is important that internal audit recommendations are always expeditiously addressed.
55.0 **MAKERERE UNIVERSITY BUSINESS SCHOOL**

55.1 **Human Resource Manual**

The School has a human resource manual that contains all the policies and procedures that guide management of the human resource. However, it was observed that the Human Resource Manual has never been gazetted as required by the Law. This creates difficulties in enforcing the provisions of the manual.

The Accounting Officer explained that the process of gazetting the manual was being undertaken. I advised him to expedite the process.

55.2 **Establishment of PDU**

According to Sec.24 and 30 of the PPDA Act, the Accounting Officer of the procuring and disposing entity should ensure that the Procurement and Disposal Unit is established and appropriately staffed. The School has an approved establishment of seven staff in the Procurement and Disposal Unit but currently, only four positions are filled leaving three positions vacant. This impacts on the performance of the unit.

The Accounting Officer explained that the PDU was established in line with envisaged activities under the School’s five year strategic plan and that positions across all departments of the School including the PDU will be progressively filled as activities in the strategic plan are implemented.

55.3 **Lack of Land Titles**

The School has three plots of land namely; plot no. 118 where the school is located, plot 5-11 in Bugolobi where the Annex is located and plot no. 1 - Kireka Hill View which is not developed. However, the school has no land titles to all these plots and therefore ownership of such assets cannot be confirmed. As indicated in our previous report, plot no.1-Kireka Hill view is located in a wetland and is partly occupied by squatters who will require compensation before the
land can be put to use. There is also a risk of NEMA not allowing the School to develop this plot because it lies in a wetland.

The Accounting Officer explained that efforts by the School to follow up issuance of land titles with the Uganda Land Commission have been futile because the Commission claims that the School is not a body corporate and hence cannot hold title in its name.

I advised the Accounting Officer to seek legal advice from the Attorney General.

55.4 **Construction of Makerere University Business School Library**

The School entered into an Ad-measurement contract with a company on 14\(^{th}\) December, 2009 for the construction of a School library at a cost of Shs.10,836,722,990. The following matters were observed upon review of the contract procurement and management process;

- Records show that the procurement proceedings and activities were initiated when the School did not have adequate funds contrary to the PPDA Regulation 105 (1). Although the contract price was Shs.10,836,722,990, the Library and Development bank accounts had balances of Shs.2,202,500,000 and by 15\(^{th}\) November, 2010, the project had a funding deficit of Shs.3,500,000,000.

  The School is likely to incur additional costs in terms of interest on delayed payments if resources are not mobilized for the purpose. Under the terms of the contract any interim certificate not paid within 30 days attracts interest at the prevailing commercial borrowing rates. In addition, liquidated damages may also be incurred by the School.

- Steel works were omitted from the bills of quantities prepared by the consultant. The consultant did not provide for steel works estimated at Shs.455,846,450 in the B.O.Q which included the steel reinforcement bars for
the floor slabs and steel roof. This omission amounts to professional lapse on the part of the consultant as he failed to perform his obligation under the contract. The School had an option of invoking the indemnity clause as spelt out under Clause 38 of the consultancy contract but this was not done.

- The project manager came up with a total of eight variations amounting to Shs.1,608,271,063 by October 2010. The variations comprise those which were due to changes in the specifications, omissions and errors made during the preparation of bills of quantities. It was however observed that some of the variations could have been avoided if the consultants had undertaken the assignment with due care and diligence. For instance, six lift stops ought to have been planned for instead of four because of the need for the disabled students to access all the floors as well.

The Accounting Officer explained that the School made a decision to commence the work because funds already saved were losing value and Ministry of Finance, Planning and Economic Development had promised to withdraw even what they had released to the School.

I advised the Accounting Officer to continue pursuing the funding of the construction of the School Library and seek remedies regarding the professional lapse by the consultant.

56.0 GULU UNIVERSITY

56.1 Cash flow Statement

The cash flow statement did not disclose receipts and payment listed below;

- the principal loan repayment of Shs.333,333,333 against the borrowing of Shs.700,000,000 from Centenary Bank.
the loan amount of Shs.396,696,641 received from Stanbic Bank on 30th December, 2009 for the acquisition of a Coaster bus and reflected under operating revenue.

advances paid during the year amounting to Shs.58,800,074.

These omissions have the effect of misstating the cash balances in the financial statements.

The Accounting Officer should have the omissions investigated and appropriate adjustments made.

56.2 **Adjustments of Reconciling Items**

Financial Regulations require that financial records be adjusted to reflect bank charges, direct credits, and direct debits arising from reconciliations. However, a review of the financial statements revealed that adjustments were not effected in respect of bank credits (Shs.12,626,566) Bank debits (Shs.9,980,312) and bank charges (Shs.3,655,827) as detailed below;

<table>
<thead>
<tr>
<th>A/C No</th>
<th>Direct Debits</th>
<th>Direct Credits</th>
<th>Bank Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanbic 0140087660801</td>
<td>1,626,900</td>
<td>-</td>
<td>117,610</td>
</tr>
<tr>
<td>Stanbic 0140088311201</td>
<td>-</td>
<td>-</td>
<td>87,500</td>
</tr>
<tr>
<td>Centenary 7510600348</td>
<td>-</td>
<td>1,022,938</td>
<td>1,080,200</td>
</tr>
<tr>
<td>Centenary 7510500420</td>
<td>-</td>
<td>-</td>
<td>8,000</td>
</tr>
<tr>
<td>Centenary 7510500421</td>
<td>-</td>
<td>-</td>
<td>4,000</td>
</tr>
<tr>
<td>Centenary 7510500422</td>
<td>-</td>
<td>-</td>
<td>10,800</td>
</tr>
<tr>
<td>Centenary 7510500423</td>
<td>-</td>
<td>2,763,827</td>
<td>896,000</td>
</tr>
<tr>
<td>Stanbic 0140088311701</td>
<td>-</td>
<td>-</td>
<td>89,563</td>
</tr>
<tr>
<td>Centenary 1010610389</td>
<td>-</td>
<td>-</td>
<td>44,000</td>
</tr>
<tr>
<td>Centenary 7510600850</td>
<td>-</td>
<td>-</td>
<td>16,600</td>
</tr>
<tr>
<td>Centenary 7510500434</td>
<td>-</td>
<td>-</td>
<td>6,000</td>
</tr>
<tr>
<td>Centenary 7510400180</td>
<td>-</td>
<td>-</td>
<td>73,200</td>
</tr>
<tr>
<td></td>
<td>Employee costs</td>
<td>Transfers to International Organisations</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------</td>
<td>------------------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Balance as per Statement of financial performance</td>
<td>8,206,812,553</td>
<td>2,532,046,605</td>
<td>1,571,833,294</td>
</tr>
<tr>
<td>Amounts paid as per Cash flow statement</td>
<td>7,228,066,097</td>
<td>2,505,876,759</td>
<td>1,224,159,065</td>
</tr>
<tr>
<td>Audited</td>
<td>978,746,456</td>
<td>26,169,846</td>
<td>347,674,229</td>
</tr>
</tbody>
</table>
outstanding commitments during the year

| New commitments as per Statement of Outstanding Commitments | 1,513,926,562 | 400,000 | 174,645,038 | 76,577,134 |
| Variance | (535,180,106) | 25,769,846 | 173,029,191 | (76,577,134) |

Management should have these errors investigated and corrected.

56.4 **Statement of Appropriation**

56.4.1 **Errors in the Statement**
The Statement of Appropriation Based on Services voted by Parliament had computation errors. The variances arising from the comparison of budgeted and actual expenditures on five expenditure categories were not accurately stated as indicated below;

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Variance as per financial statements (Shs)</th>
<th>Audited variances amounts (Shs)</th>
<th>variances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs:</td>
<td>159,332,020</td>
<td>(819,514,436)</td>
<td></td>
</tr>
<tr>
<td>Consumption of Property, Plants and Equipments:</td>
<td>2,178,511,707</td>
<td>1,844,031,581</td>
<td></td>
</tr>
<tr>
<td>Social Benefits:</td>
<td>0</td>
<td>(7,071,800)</td>
<td></td>
</tr>
<tr>
<td>Goods and Services:</td>
<td>17,820,449</td>
<td>(234,900,169)</td>
<td></td>
</tr>
<tr>
<td>Grants paid:</td>
<td>40,391,141</td>
<td>40,391,141</td>
<td></td>
</tr>
</tbody>
</table>

These variances were not investigated and corrected.
56.4.2 **Over Expenditure**

According to the audited figures highlighted in the Statement of Appropriation based on services voted by Parliament, an over expenditure on three expenditure categories was incurred without relevant authority as shown below;

<table>
<thead>
<tr>
<th></th>
<th>Actual Expenditure</th>
<th>Budget</th>
<th>Over Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Costs</td>
<td>8,044,851,960</td>
<td>7,225,337,524</td>
<td>819,514,436</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>4,803,597,377</td>
<td>4,568,697,208</td>
<td>234,900,169</td>
</tr>
<tr>
<td>Social Benefits</td>
<td>135,123,657</td>
<td>128,051,857</td>
<td>7,071,800</td>
</tr>
</tbody>
</table>

Over expenditure indicates weaknesses in controls over budgetary expenditure.

Management should ensure that expenditure is incurred in accordance with the approved budget. Where additional resources are needed, virements/reallocations should be effected in accordance with the regulations.

56.5 **Interest on Borrowings**

The borrowings of Shs.630,635,989 disclosed in the Statement of Financial Position includes accrued interest of Shs.97,572,243 on the loan amount. However, accruing the interest expense is not consistent with accounting policy on borrowings which states that interest income or expense on borrowings is recognized in the financial statements only when paid or received.

The treatment adopted overstates the borrowings position. I have advised management to adjust the financial statements to comply with the accounting policy.

In future it may be necessary to review the policy regarding accrual of interest on borrowings by Universities and Tertiary Institutions.
56.6 **Receivables**

The receivables are understated by Shs.5,000,000 in respect of an amount extended to a former member of staff who resigned before its settlement. In addition, there is an un-disclosed amount recoverable from a member of staff who resigned in breach of the training loan agreement.

Management should have proper disclosure of all receivables to enable their follow up.

56.7 **Un-utilized Gross Tax Amount**

The University did not utilize a total of Shs.400,000,000 provided under the gross tax expenditure item to cater for taxes on imports during the year under review because they did not know the procedures for accessing the funds from Treasury. The financial statements show that the funds were returned to Treasury. However, the transfer of the gross tax amount to Treasury was not supported by a Treasury acknowledgement receipt.

I have advised the Accounting Officer to follow up the receipt with the Accountant General. In addition, management should take advantage of training opportunities offered by the Treasury in order to acquaint themselves with government financial management procedures.

56.8 **Land titles**

The University claims ownership of three pieces of land whose titles had not been secured. One piece measuring 621 Acres is located in Lira while two pieces measuring 742 Hectares and 28 Hectares are located in Gulu. Without a title, ownership of the land in question cannot be guaranteed. The Accounting Officer explained that the land in Lira had been surveyed and a title was about to be obtained. He further explained that the acquisition of the title for the 742 Hectares needed substantial Government support to value and compensate a number of squatters on the land.
The Accounting Officer is advised to follow up the matter with the Government Valuer. Adequate resources should also be mobilized internally and through dialogue with the Ministry of Finance to facilitate the valuation and compensation process.

56.9 **Under Staffing**

The University has only 358 staff out of the 820 established posts resulting into a shortage of 462 staff. Lack of adequate staffing in both academic and administrative functions adversely impact on the University’s academic performance.

The Accounting Officer attributed the staffing gaps to budget constraints.

The University should liaise with the responsible authorities to address the matter.

56.10 **Effectiveness of Internal Audit**

To have an effective internal audit function, the internal audit unit should be adequately staffed and facilitated. However it was observed that although the structure requires the Internal Audit Department to be substantively headed by a Principal Internal Auditor, it is currently headed by an Internal Auditor.

Furthermore, the department does not have a budget line and is financed from funds allocated to the Finance Department. This undermines its independence and effectiveness.

Management is advised to strengthen the internal audit function by having a substantive head of the department recruited and providing the requisite resources to facilitate its operations.
56.11 **Psycho-Traumatology Project**

Records show that a member of staff (Teaching Assistant) in charge of the Psycho-Traumatology Project in the Mental Health Department approached the German Embassy and solicited for funds for the project purportedly on behalf of the University without seeking authority from top management. He signed a Memorandum of Understanding with the German Embassy and obtained the money, part of which was secretly deposited to his personal account. A vehicle, Toyota RAV 4 – UAK 089Y, reportedly procured for the project was also registered in his names.

Details relating to the operations of the project were not obtained to enable me carry out further review. This limited the scope of my audit.

The Accounting Officer explained that the officer was dismissed and the matter was being handled by the Inspector General of Government.

57.0 **BUSITEMA UNIVERSITY**

57.1 **Delayed submission of financial statements**

Section 64(2) of the Universities and Other Tertiary Institutions Act, 2001 as amended requires the University Council to ensure that within three months from the end of each financial year, a statement of accounts is prepared and submitted to the Auditor-General for auditing.

However, the financial statements were submitted on 29th November, 2010 two months beyond the stipulated time period contrary to the above provision. Delays in production of financial statements indicate weaknesses in the financial management function and results in delays in undertaking statutory audits.

I have advised management to always adhere to the statutory reporting deadlines.
57.2 **Statement of Appropriation**

57.2.1 **Misstatement of Account Balances**

Analysis of the Statements of Appropriation revealed inconsistencies in the amounts stated as variances. Whereas the Statement of Appropriation based on services voted by Parliament shows a budget variance of Shs.452,759,509, the Statement of Appropriation based Nature indicates an amount of Shs.1,865,785,718. The total variance of Shs.452,759,509 was also overstated by Shs.3,513,332. These discrepancies were not explained.

57.2.2 **Excess Expenditure**

The audited balances in the Statement of Appropriation Account (Based on services voted by Parliament) shows that the University spent a total of Shs.449,246,177 over and above the approved budgetary provisions without seeking relevant authority.

Excess expenditure indicates lack of proper planning and/or weaknesses in controls over budgetary expenditure.

Management is advised to spend within the approved budgetary provisions and where there is in need for variation, authority should be obtained.

57.3 **Expenditure Not Accounted for – Shs.60,270,866**

Examination of payment vouchers revealed unsupported expenditure amounting to Shs.60,270,866. This limited the scope of my audit. I was not able to confirm that the above funds were utilized on the intended purposes.

Management was advised to pursue the accountability and where it cannot be traced, recovery of the funds may be considered.
57.4 **Cash and Cash Equivalents**

The bank reconciliation statements for the NTR and Subvention Expenditure accounts show a discrepancy of Shs.95,796,461 between the cash book balances and the bank balances which was not explained. In addition, the net decrease in cash and cash equivalents is overstated by Shs.25,444,206 representing deposits that were not recognized as a cash inflow in the Cash Flow Statement. Consequently, I could not confirm the accuracy of the cash balances disclosed in the financial statements.

The Accounting Officer was advised to establish the cause of the discrepancy and adjust the accounts accordingly.

57.5 **Staffing Gaps**

The University is faced with an acute staffing problem. For instance, out of the established structure of 251 Academic and 295 Administrative staff, only 111 and 154 positions respectively had been substantively filled resulting into a shortage of 281 staff. This was attributed to budget limitations, minimal sources of local funding and poor response to advertisements.

Lack of adequate staffing in both academic and administrative functions adversely impacts on the University’s academic performance.

The University should liaise with the responsible authorities to address the matter.

57.6 **University Land**

The university does not have land titles for the headquarters in Busitema and the constituent colleges in Nagongera, Arapai and Namasagali. It was previously reported that Busitema headquarters land boundaries were opened and a land title was being followed up with the Uganda Land Commission while the boundaries of the land at Nagongera were to be opened during the year under
review. However, by the time of writing this report the land title for Busitema Headquarters had not been acquired neither were the boundaries of Nagongera land opened.

Management is advised to expedite the process of securing land titles for all its land to guarantee ownership.

57.7 **Retirement Benefits Not Budgeted for**

Section 62(2)(b) of the Universities and Other Tertiary Institutions Act, 2001 as amended requires the annual estimates to include all the income and expenditure of the Public University for that financial year and in particular the payment of all pensions, gratuities and other charges regarding retirement benefits payable out of the funds of the University.

However, the university does not budget for retirement benefits for staff yet all staff are on contract. This implies that the University cannot settle the benefits as and when they fall due. This can lead to low staff morale and litigation. In absence of relevant records, I was not able to ascertain the retirement benefits due to staff at the end of the year.

Management should ensure that retirement benefits for staff are budgeted for annually and those outstanding properly disclosed in the financial statements.

57.8 **Similarity of Contract Prices with Estimated Prices**

PP Form 20 should be filled with the estimated value of the procurement and approved by the responsible officers at the initiation of a procurement process. A review of procurement files for the year under review revealed that the estimated values of some procurements were similar to the bid and contract prices quoted and awarded (Shs.899,101,745). This was quite strange.

Similarities in prices imply that there was either leakage of the estimated values of procurements or the PP Forms 20 were filled after the award of the contracts.
The recent PPDA administrative review report on the tender for the construction of an administration block at Namasagali also revealed the above anomaly and advised re-tendering of the work and disciplinary action against those responsible. The Accounting Officer explained that there were interns in the PDU who were suspected to have been leaking information to bidders but were later discontinued.

I advised the Accounting Officer to have the works retendered in accordance with the PPDA recommendation.

57.9 **Infrastructure**

Inspection of the University facilities revealed that the University is facing the problem of very old dilapidated infrastructure which requires renovation and reconstruction.

Other challenges facing the University include;

- shortage of equipment and materials for teaching practicals resulting into some practical training not being conducted;
- water shortages due to electricity load shedding, frequent break down of pumps and pipes, and lack of adequate water storage facilities.
- the University uses pit latrines despite its status of a public university;
- the Clinic lacks a laboratory Technician to carry out basic tests necessary for effective patients’ management. Namasagali campus clinic operates from a poor structure without shutters and curtains. It also lacks basic equipment like beddings, thermometer, drip stands, test kits and medical records.

Management should mobilize funding for the general improvement of the University infrastructure. The construction and use of pit latrines in the University should be discouraged in favour of water borne toilets.
58.0 **ARUA HOSPITAL**

58.1 **Excess Expenditure**

During the year the hospital budgeted for Shs.4,261,425,000. However, the total expenditure was Shs.4,416,614,365 resulting into an excess of Shs.155,189,365 which was not approved. Unapproved expenditure contravenes budgetary controls.

Management attributed excess expenditure to increase in the wage bill.

I advised management to obtain approval for supplementary expenditure.

58.2 **Funds not Accounted for**

A sum of Shs.15,854,543 advanced to various staff for official activities lacked relevant supporting documents rendering the genuineness of the expenditure doubtful; refer to attached appendices A & B. Unsupported expenditure is potentially fraudulent.

I advised management to submit the documents for verification.

58.3 **Payables**

Out of the payables balance of Shs.52,969,835 reported on 30th June 2010, the entity settled water bills of Shs.4,196,000 resulting into an outstanding sum of Shs.48,773,835. Accumulation of payables contravenes the budget Act 2001 Section 14.

Management attributed the anomaly to failure by previous management in adhering to the commitment control system.

I urged management to operate within the approved budgetary provisions and adhere to the commitment control system.
58.4 **Expired Drugs**

Inspection of the Hospital stores revealed expired drugs valued at Shs.4,728,143. Accumulation of expired drugs reduces availability of storage space. Besides, there is a risk of the drugs infiltrating into the open market.

Management stated that Ministry of Health had been contacted to facilitate the disposal. I urged management to liaise with relevant authorities to ensure disposal.

58.5 **Revenue Shortfall**

Out of the budgeted Non-tax Revenue of Shs. 34,000,000, only Shs 15,778,000 was realized resulting into a shortfall of Shs.18,222,000. Besides there was no budget revision.

Under collection of revenue impairs implementation of planned activities.

I advised management to enhance their revenue mobilization efforts.

58.6 **Outstanding Receivables**

Out of receivables of Shs.3,075,000 it was noted that Shs.1,475,000 was recovered during the year leaving a balance of Shs.1,600,000. These were not supported with the debtors schedule and besides, the debtors have been outstanding for more than twelve months indicating inadequate debt recovery. The accounting officer stated that demand notes had been issued to the concerned entities.

I advised management to submit the debtors schedule and ensure recovery of outstanding funds.

58.7 **Failure to Board off Vehicles**

Three (3) vehicles recommended by the Board of survey for boarding off were not disposed off. There is risk of further diminution in the value of the assets
through wear and tear and pilferage. Management attributed the delay in disposal to lack of valuation by Ministry of works. The schedule below refers;

<table>
<thead>
<tr>
<th>Vehicle No</th>
<th>Make</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG 0071-03</td>
<td>Suzuki Samurai</td>
</tr>
<tr>
<td>UM 2115</td>
<td>Toyota Land Cruiser (wagon)</td>
</tr>
<tr>
<td>UG 0034M</td>
<td>Mitsubishi Double Cabin</td>
</tr>
</tbody>
</table>

I advised management to liaise with Ministry of Works to ensure that necessary valuation is done to enable disposal.

58.8 **Lack of Land Title for the hospital**

The hospital land described as plot No.M43 covering 17.109 acres lacks a land title. Lack of the land titles exposes the Hospital property to risk of encroachment.

Management stated that a process of acquisition of the land title had been initiated with Ministry of Lands.

I advised the accounting officer to follow up the matter.

59.0 **GULU HOSPITAL**

59.1 **Anomalies in record keeping and preparation of financial statements**

59.1.1 **Inadequate Maintenance of Records**

Paragraph 420 of the TAIIs 2003 stipulates maintenance of accounting records as a responsibility of the Accounting Officer. However, the source records such as abstracts, ledgers and vote control registers were not maintained as such I was unable to confirm the accuracy of figures reported in the financial statements. Management should update and avail the missing records for verification.
In addition, record keeping was in adequate as the receipts (debit) side of the cash book was not recorded at all while the expenditure (credit) side was recorded up to February 2010.

Although management in their response attributed the poor record keeping standards to inadequate staffing and that now a new accountant was deployed at the Hospital the anomalies were not addressed on verification the anomalies had not been addressed.

I have advised management to expedite the process of updating these books and also ensure that accounting records are maintained on a daily basis and the cash books reconciled regularly, at least on a monthly basis.

59.1.2 Payables

Reported in the balance sheet is a payables figure of Shs.533,663,438. However, note 26 to the accounts does not show details of the above payables figure. In addition, accumulated debts affect the implementation of subsequent financial years’ planned activities as funds are diverted to settle the arrears. I was unable to confirm the accuracy of the payables figure reported above as no other underlying records such as payables ledgers and files were available for verification.

Management was advised to avail the payables’ ledgers and individual files for verification. Details of payables should be incorporated in the notes to the accounts.

59.1.3 Unauthorized Expenditure

Management spent a sum of Shs.487,277,269 in excess of the amounts appropriated for the Year 2009/10. However, there was no proof of authority from Parliament allowing the expenditure to stand charged to public funds contrary to Section 17 of the Public Finance and accountability Act (PFAA) 2003.
Management in their response attributed the excess expenditure to domestic arrears in respect of water and electricity.

I have advised management to have the expenditure regularized.

59.2 **Incompletely vouched expenditure**

Shs.134,164,532 was advanced to various hospital officials and firms to carry out Hospital activities during the financial year under review. Scrutiny of the payment vouchers revealed that these payments were not supported with adequate accountability documents contrary to regulations 181 and 215 of the TAIs-Part I 2003. It is probable that the funds were not applied for the intended activities.

Supporting documentation should be availed for audit verification or funds refunded by the responsible officers.

59.3 **Irregular Procurement Of Services**

Shs.38,807,020 was spent on provision of services to the hospital. However, I was unable to establish whether the suppliers were competitively identified as there were no procured and management files in place to facilitate verification. There is a risk that management could have engaged incapable providers.

Management should avail the procurement and contracts management files for verification as required by the regulations.

59.4 **Stamping of payment vouchers "PAID"**

All the paid payment vouchers and the attached documents were not stamped 'PAID' contrary to the requirement under Regulation 125 of the Treasury Accounting Instructions (TAIs) 2003.

There is a possibility of recycling these documents by unscrupulous persons to account for subsequent payments.
The irregularity could be attributed to laxity on the part of management to enforce the regulations.

All the payment vouchers and accompanying documents should be stamped “PAID” after effecting payments.

59.5 **Inspection Report**

59.5.1 **Expired drugs**

Expired drugs worth Shs.6,266,305 were found on the drug store shelves during the time of the audit inspection. This can be attributed to laxity on the part of management to destroy or separately store the expired drugs. There is a likelihood of these drugs being mixed up with non-expired drugs and administered to patients which may endanger their lives.

I have advised management that the responsibility of expired drugs lies with the Ministry of Health and that management should contact the ministry for further guidance.

59.5.2 **Drug store**

Audit inspection was carried out in the drug store and it was noted that the environment under which drugs were stored was poor. The ceiling of the drug store had developed cracks and a portion of it had collapsed **(Refer to Figures 1, 2 & 3)**
Management in their response explained that though the current store is in a bad state a new store was being constructed.

I advised management to expedite works on the new store as the current store is not fit for storage of drugs.

59.6 **Special Audit**

A special audit was carried out on the utilization of capital development funds for the financial years 2008/09 and 2009/10 and a separate report issued. It was noted during audit that new management had been put in place and the findings in the special audit have been brought to their attention for redress. The findings in the special audit report are:-
59.6.1 Diversion of Capital Development Funds

The hospital received a total of Shs.3,621,415,000 as capital development fund for financial years 2008/09 and 2009/10. The funds were deposited in a Stanbic account which served both as recurrent and development account.

The funds were meant to be utilized as detailed below:

<table>
<thead>
<tr>
<th>S.No</th>
<th>Items</th>
<th>2008/09</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non Residential</td>
<td>969,000,000</td>
<td>865,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Residential</td>
<td>300,000,000</td>
<td>400,000,000</td>
</tr>
<tr>
<td>3</td>
<td>Transport &amp; Motor vehicle</td>
<td>175,000,000</td>
<td>200,000,000</td>
</tr>
<tr>
<td>4</td>
<td>Machinery &amp; Equipment</td>
<td>124,415,000</td>
<td>140,000,000</td>
</tr>
<tr>
<td>5</td>
<td>Furniture &amp; Fittings</td>
<td>121,000,000</td>
<td>70,000,000</td>
</tr>
<tr>
<td>6</td>
<td>Other fixed assets</td>
<td>182,000,000</td>
<td>75,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,871,415,000</strong></td>
<td><strong>1,750,000,000</strong></td>
</tr>
</tbody>
</table>

Scrutiny of the utilization of these funds showed that only Shs.1,714,410,078 was spent on planned capital projects. The balance of the funds (Shs.1,907,004,922) was utilized on activities that had not been planned and there was no evidence of authority to vire the expenditure.

Management explained that the diverted funds were utilized in respect of priority and emerging issues that required urgent attention.

I informed management that authority should have been obtained from the Ministry of Health and that of Finance Planning and Economic Development to vire the expenditure. The expenditure relating to the diverted funds was therefore irregular. I have also advised management that separate accounts should be maintained for collection and operations as provided in the regulations. This will facilitate easy monitoring of the funds meant for different programmes.
59.6.2 **Contract management irregularities – construction of staff house, administration block and drug store**

A review of the procurement plan for the financial year 2009/10 showed that Shs.458,000,000 was budgeted for completion of the first floor of the staff house and the whole amount was released by the Ministry of Finance, Planning and Economic Development (MoFPED). However it was observed that the contractor had been paid only Shs. 211,089,492.

Also noted was that whereas the contractor had executed 80% of the works on the Administration and Drug store, only Shs 400,252,071 had been paid by the time of audit.

Site inspection revealed that the contract works on the staff house (**Figures 1 & 2**) and, Administration and Drug store block (**Figure 3**) had stalled and the contractors were not on site.

---

**Figure 1: Abandoned Staff House**

**Figure 2: Abandoned Staff House.**
Management in their response explained that the balance of funds was utilized in respect of extra works on medical and surgical wards which were not budgeted for.

Management was advised to avail this Office with the procurement and contracts management files for verification.

59.6.3 **Compliance with procurement laws**

(a) **Unauthorized procurements**

Shs.476,647,844 was paid to various service providers during the financial year under review to provide services to the Hospital. However, I was unable to establish whether the suppliers were competitively identified as there were no procurement and management files in place to facilitate verification. There is a risk that Management could have engaged incapable providers as these were not vetted by the Contracts Committee.

Although management in their response indicated that the procurement and contracts management files were now in place to facilitate verification, the files were not presented to my team for the verification.

Management should avail the respective procurement files and contract management files in accordance with regulations 90 and 91 of the PPDAR 2003.
Additionally, all contract awards should be done in accordance with the relevant procedures and requirements stipulated in the PPDA regulations.

(b) **Procurement of medical equipment**
A firm was awarded a contract to supply medical equipment worth Shs.192,000,000 which was purportedly delivered as reflected on delivery notes 0631, 0632, 0633, 0634, 0635 and 0636. Payments were made vide vouchers 963/9/09 (Shs100,000,000) and 964/9/09 (Shs.92,000,000). Scrutiny of the supporting documents revealed the following anomalies/ inconsistencies:

(i) Out of Shs.192,000,000 paid to the supplier only Shs 172,000,000 was supported with receipts.
(ii) Tax invoice number 0426 and Local Purchase Order number 032 indicate amount payable to the supplier of Shs.192,545,000 as opposed to Shs.192,000,000 reflected on the payment vouchers.
(iii) A letter of bid acceptance dated 21st April 2009 and award acceptance by the firm both show a contract price of Shs.664,678,182 against procurement reference No. GH/SUPPL/08-09/00056.
(iv) The contract agreement dated 4th May 2009 indicates that the above firm was awarded a contract at a sum of Shs.195,880,000.
(v) The procurement and management files were not availed for audit.

Management in their response explained that Shs.172,000,000 was paid against the contract sum of Shs.192,000,000 and the equipment was duly delivered to the user departments and labeled.

In view of the above inconsistencies and lack of procurement documents, I am unable to confirm that the amounts contracted out were fair and in accordance with the regulations.

(c) **Supply of Furniture**
The supply of assorted furniture contract was awarded to a firm. However, it was observed that management signed two contracts for the supply of the same goods at different contract prices of Shs.73,384,200 and Shs.50,000,000.

Management in their response explained that the contract for the supply of furniture was worth Shs.73,384,200 for which two payments of Shs.50,000,000 and Shs.23,384,200 were made.

Whereas management has explained as above, it was noted that payments so far made in respect of supply of furniture amounted to Shs.99,783,062.

I have advised management to provide the procurement and contracts management file for verification.

(d) **Extra Budgetary Expenditure**

Paragraph 152 of the Treasury Accounting Instructions (TAIs) 2004 prohibits spending outside the approved estimates without authority in form of supplementary estimates, virements or contingencies fund advance warrants.

However, it was observed that Management of the Hospital incurred expenditure amounting to Shs 77,509,551 on services not approved by parliament. The table below refers:

<table>
<thead>
<tr>
<th>Payee</th>
<th>Particulars</th>
<th>Contract Amount Shs</th>
<th>Gross amount paid Shs</th>
<th>Balance Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lubra Contractors</td>
<td>Extra Works on Medical Ward</td>
<td>51,965,666</td>
<td>49,763,731</td>
<td>2,201,935</td>
</tr>
<tr>
<td>IT Customerised Applications</td>
<td>Website Design</td>
<td>4,500,000</td>
<td>1,000,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td></td>
<td>Fitting windows in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zeep Construction</td>
<td>the maternity ward</td>
<td>28,453,000</td>
<td>26,745,820</td>
<td>1,707,180</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------</td>
<td>------------</td>
<td>------------</td>
<td>-----------</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>84,918,666</strong></td>
<td><strong>77,509,551</strong></td>
<td><strong>7,409,115</strong></td>
</tr>
</tbody>
</table>

Management in their response explained that the payments were made in respect of extension of the medical ward and fitting windows at the maternity ward and that the activity was handled by Italian assistance to Northern Uganda.

However, I was not availed the documentation in respect of those transactions.

I have advised management to avail the procurement and contracts management files including the MOU between the Ministry of Health and Italian Government.

(e) **Apparent Financial Loss – Payment on VAT on exempt services**

Public works related to health sectors are exempt under the second schedule, paragraph 1(aa) of the Value Added Tax (VAT) Act 1997 (as amended). However, it was observed that VAT amounting to Shs.62,140,031 was paid to contractors and yet the supplies provided by these contractors are exempt. I consider the payment irregular.

Management was advised to recover this money from the respective contractors.

(f) **Unacknowledged tax deductions**

Section 123(1) of the Income Tax Act CAP 340 requires a withholding tax agent to pay to the commissioner any tax that has been withheld or that should have been withheld within fifteen days after the end of the month in which payment subject to withholding tax was made.

Tax deductions amounting to Shs 50,896,523 were not supported by the official acknowledgement receipts or certificates from the commissioner/ the tax body.
The funds may not have been remitted to the tax authorities and may attract penal tax.

Management in their response explained that the documents had been taken by the Monitoring Team of the President’s Office but were now available for verification. However, no such documents were availed as promised.

Management was advised to avail official URA receipts in support of the amounts purportedly remitted.

(g) Treasury Management
It was noted that Management operated only one Stanbic bank account No. 0140087563701 which served as both a Collection and Operations/Expenditure Account.

There is a risk of mixing up recurrent and capital development funds.

In their response, Management explained that they were only implementing a directive received from MoFPED to operate one account which served as a collection and operations/expenditure account.

Management was advised to operate bank accounts and records in such a way that development and recurrent funds can be traced to avoid diversion.

(h) Loss of cheque book counterfoils
Cheque book counterfoils could not be traced at the time of audit as the cheques were purportedly stolen. There was no evidence of a loss report contrary to the requirements in paragraphs 390 and 391 of the Treasury Accounting Instructions 2003.

Although management in their response explained that the cheque book was part of the documents that were stolen from the Hospital Official vehicle No.UG
845M as they were being transported back from the President’s Office and that a police report had been made, I was not provided with the report to enable verification.

I advised management to trace the report and avail it for audit.

(i) **Numbering of payment vouchers**

Although the payment vouchers were pre-numbered, they were not used and filed in sequential order making it difficult to track the payments.

Management in their response explained that this anomaly was addressed. However at the time of verification, there was no documentary evidence to this effect.

I have advised management to institute a proper filing system that should facilitate easy tracking and retrieval of documents.

**60.0** **JINJA HOSPITAL**

**60.1** **Domestic Arrears**

The hospital accumulated domestic arrears of Shs.360,899,368 of which Shs.191,900,052 relates to the current year and Shs.168,999,316 was for the previous year. Included in the domestic arrears is a sum of Shs.150,21,28 relating to utilities.

The Accounting Officer attributed accumulation of arrears to inadequate funding of the Hospital and the industrial charges for water and sewerage services.

I advised management to liaise with Ministries of Health and Finance, Planning and Economic Development for additional funding and review of the utility charges.
## 60.2 Expired Drugs

Inspection of the hospital stores revealed expired medical supplies worth Shs.14,486,478. The schedule below refers:

<table>
<thead>
<tr>
<th>DRUGS</th>
<th>QUANTITY</th>
<th>SOURCE</th>
<th>DATE OF EXPIRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pridinisole Tabs</td>
<td>1000 – 1 bottle</td>
<td>JCRC</td>
<td>Feb. 2010</td>
</tr>
<tr>
<td>Lamivu Syrup</td>
<td>1 bottle</td>
<td>NMS</td>
<td>April 200</td>
</tr>
<tr>
<td>Efavirenz Caps</td>
<td>1350</td>
<td>NMS</td>
<td>March 2010</td>
</tr>
<tr>
<td>Zidovulin Syrup</td>
<td>33 bottles</td>
<td>JCRC</td>
<td>Nov. 2009</td>
</tr>
<tr>
<td>Stavudin (Zerit)</td>
<td>40 bottles</td>
<td>JCRC</td>
<td>Aug. 2009</td>
</tr>
<tr>
<td>Lamivudine/Zidovudine Tabs</td>
<td>10800</td>
<td>NMS</td>
<td>Nov. 2009</td>
</tr>
<tr>
<td>Metoclopramide Tab</td>
<td>1400</td>
<td>NMS</td>
<td>Oct. 2009</td>
</tr>
<tr>
<td>Metroclapramide Tabs</td>
<td>100</td>
<td>MOH</td>
<td>Oct. 2008</td>
</tr>
<tr>
<td>Praziquanti Tabs</td>
<td>627</td>
<td>NMS</td>
<td>June 2010</td>
</tr>
<tr>
<td>ORS</td>
<td>9,225 Sackets</td>
<td>NMS</td>
<td>July 2009</td>
</tr>
<tr>
<td>Acyclouir Cream</td>
<td>888 Tubes</td>
<td>NMS</td>
<td>Sept. 2009</td>
</tr>
<tr>
<td>Acyclouir Tabs</td>
<td>28.500 Tabs</td>
<td>NMS</td>
<td>Sept. 2009</td>
</tr>
<tr>
<td>Benzy (Benzoate)</td>
<td>8 Bottles</td>
<td>NMS</td>
<td>Aug. 2009</td>
</tr>
<tr>
<td>Lozenges</td>
<td>1,680 Tabs</td>
<td>NMS</td>
<td>July 2009</td>
</tr>
<tr>
<td>Flagyl I.V</td>
<td>900 Bottles</td>
<td>DMO</td>
<td>Sept. 2009</td>
</tr>
<tr>
<td>Zidovuline Oral</td>
<td>4 Bottles</td>
<td>NMS</td>
<td>July 2009</td>
</tr>
<tr>
<td>Diazepam Tabs</td>
<td>15,000</td>
<td>SSHP Butabika</td>
<td>Aug. 2009</td>
</tr>
<tr>
<td>Phenobabton Tabs</td>
<td>13,000</td>
<td>SSHP Butabika</td>
<td>July 2009</td>
</tr>
<tr>
<td>Ketamine Injection</td>
<td>2900</td>
<td>NMS</td>
<td>Aug. 2009</td>
</tr>
<tr>
<td>Acyclovier Tablets</td>
<td>6 x 6 x 28,500</td>
<td>MM</td>
<td>July 2009</td>
</tr>
</tbody>
</table>
FROM JCRC

ARVs EXPIRED AS AT 30TH JUNE 2010

<table>
<thead>
<tr>
<th>Drugs</th>
<th>Quantity</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Didanosino (Vicontex)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>Zidovuline Oral solution</td>
<td>3</td>
<td>240</td>
</tr>
<tr>
<td>Tab Didinotine Tabs (200 mg)</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Tab Videx (Didonosine 400mg)</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>Tab Videx (Didonosine 250mg)</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Nevimine 200mg</td>
<td>8</td>
<td>60</td>
</tr>
<tr>
<td>Tab Trimune Baby</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>Tab Aciorr 200mg</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Tab Zerit (Powder)</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Tab. Stavudine 15mg</td>
<td>43</td>
<td>60</td>
</tr>
<tr>
<td>Tab Zidolplan 3TDD4T</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Tab. Mysclar 375</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Tab. Stocrine(etevirazihe) 50mg</td>
<td>8</td>
<td>30</td>
</tr>
<tr>
<td>Tab. Procrin 50mg</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Tab. Efavirenz 200mg</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Tab. Alluvia/Copemain 200mg</td>
<td>4</td>
<td>90</td>
</tr>
<tr>
<td>Caps Efevirenz 200mg</td>
<td>4</td>
<td>90</td>
</tr>
<tr>
<td>Tabs. Aspenlormid 3TC/4Dt</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>Carbimazole 5mg</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Co. Arinats Cream</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Miconozole Gel</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Nicerapine Suspension 50mg</td>
<td>1</td>
<td>240</td>
</tr>
<tr>
<td>Lanivudine &amp; Stavnaline Tabs</td>
<td>20 x 60</td>
<td></td>
</tr>
<tr>
<td>Neviropine Syrup</td>
<td>2 bottles</td>
<td></td>
</tr>
<tr>
<td>Septrine Syrup</td>
<td>1 bottle</td>
<td></td>
</tr>
</tbody>
</table>

Accumulation of expired drugs constrains storage space and may result into infiltration of dangerous chemicals into open market.
Management stated that expired drugs were declared in the annual board of survey and the process of disposal is under way.

I advised the Accounting officer to liaise with Ministry of Health and dispose off the expired drugs.

60.3 **Non Utilization Of Intensive Care Unit**

It was observed that in the financial year 2008/2009 the Hospital spent Shs.886,864,862 from it’s capital development budget on construction of the intensive care unit. The construction was completed in March 2010. Inspection of the facility however, revealed that it was non-functional.

Management stated that some critical equipment and oxygen installations were lacking.

I advised management to liaise with the relevant stakeholders to put the facility to appropriate use.

60.4 **Overstaffing**

Review of the Hospital staffing revealed that whereas the approved establishment is 157 the current staffing is 177 resulting into overstaffing by 20 staff. It was however, observed that while some key positions such as consultants were under staffed by 6 staff, the nursing cadres were over staffed by 35 staff.

Management stated that a proposal had been submitted to the Ministry of Health for a new staff structure owing to increase in work load.

I advised the Accounting Officer to liaise with the Health Service Commission so as to streamline the staffing status in the hospital.
61.0 MBALE HOSPITAL

61.1 Payables

Payables of Shs.372,542,919 were reported as outstanding at the year end. However the respective creditors ledgers showing details of the nature of services provided and amounts owing were not maintained during the year. Besides accumulation of arrears contravene the provision of the budget Act 2001 and the commitment control system instituted by government to minimize accumulation of domestic arrears.

Management should adhere to the Budget Act and the Commitment Control System.

61.2 Advances not Accounted for

Scrutiny of the recurrent expenditure for the year revealed that a total sum of Shs.82,325,945 was advanced to various officers to implement official activities but remained unaccounted for at the close of the financial year, contrary to financial regulations. Besides the advances were not reported in the accounts.

I advised management to avail the accountability or funds are recovered from the concerned staff. In addition the necessary adjustments to the accounts should be made.

61.3 Procurement Irregularities

61.3.1 Unclaimed Liquidated Damages on a Road Rehabilitation

A road rehabilitation contract worth Shs.339,921,023 was scheduled for completion by 28 December 2009. However, by 30th June 2010 (6 months after) the contract was still incomplete and had not been handed over to the client.

However, liquidated damages for the delay were not claimed.
Management was advised to seek liquidated damages and ensure completion of the contract.
61.3.2 **Renovation of Casualty Ward**
Contrary to regulation 261 Public Procurement and Disposal of Assets, the contractor was paid an extra sum of Shs. 33,681,155 as contract variations in respect of the casualty Ward without the relevant contracts committee approval. The officers responsible for flouting the procurement regulations should be held responsible and appropriate administrative action taken.

61.3.3 **Supply of Roofing Tiles and Ridges for the Maternity Ward**
Shs.6,828,640 was paid in respect of supply of roofing tiles and ridges for the Maternity Ward. However concerned staff revealed that no new tiles were supplied, as old ones were washed and re used. I recommend recovery of this amount.

61.3.4 **Water and Electricity Used by the Contractors**
Audit inspection also revealed that contrary to the contract provisions, the contractor was using water and electricity for the hospital and necessary recoveries or deductions were not made from the contract sums. I recommend recovery of the amount incurred on water and electricity from the contractors.
61.3.5 Renovation of Masaba Wing, TB Ward & Special Clinics Block

(a) **Advance Payment**
A sum of Shs.79,474,020, being 20% of the contract price was paid to a firm in advance before contract signing. Besides the Solicitor General’s approval and advance payment guarantee were not submitted. Payments against non-existent contracts is potentially fraudulent.

The staff responsible for flouting the procurement regulations should be held responsible and appropriate administrative action taken.

(b) **Non Implementation of Building Works**
Inspection of the renovated buildings revealed that works worth Shs.109,205,000 had been billed without evidence of physical work done and some cases the costs were inflated.

Management should undertake extensive inspection of the repaired buildings to establish the actual repairs done, with a view of recovering any excess payments made. Supervision of these works should also be strengthened.

(c) **Irregular Payment of Contingency Amounts**
Contingency payments amounting to Shs.35,579,100 were not supported with the contractor’s request, endorsement by project manager and authorization from the Accounting Officer rendering the genuineness of the expenditure doubtful. In addition, a supervisory fee of Shs.6,000,000 was incurred without technical basis.

In absence of the documentation, I advised that recovery of the amount should be effected.
(d) **Procurement Other Irregularities**

A review of the procurement documents for the financial year under review in respect of goods, services and works revealed several irregularities as indicated below:

- Cases of incomplete documents, inadequate evaluation reports and incomplete contracts committee minutes were noted.
- There were cases of contract awards not supported by evidence of issuance of bid documents, payment of bid fees, bid opening, bid evaluation and award communication.
- For a majority of procurements, there were no departmental work plans and user department statements of requisitions (PP Form 1) contrary to regulation 34-1&2 of Public Procurement and Disposal Act.
- There was no evidence of contract management for major contracts, as respective periodic reports and contract registers were not in place. This is contrary to the requirements of regulation 91 of PPDA.

Management attributed the anomalies to understaffing in the procurement and disposal unit.

I have advised management to address the issue of understaffing by having competent staff recruited to the procurement unit. In addition administrative action should be taken against those responsible for flouting procurement regulations.

61.4 **Diversion of Capital Development Funds**

Shs.18,242,000 was diverted from the Capital Development Budget for payment of salaries and utilities without the necessary authority. Diversion of funds contravenes budgetary controls.

I advised management to submit the authority or return the funds accordingly.
61.5 Audit Inspections

Audit inspection carried out in October 2010 revealed the following observations;

61.5.1 Medical Drugs/Sundries Store

(a) Record Keeping

The stores lacked serialized requisition forms and issue vouchers, instead ordinary counter books and stationery were in use. Additionally, records in respect of Anti-Malarial drugs were found missing.

Management should introduce serialized documents and also trace the missing records.

(b) Expired Drugs

The inspection also revealed 24 different types of drug types which had expired between 2007 and 2009. Four other types were due to expire in October – December 2010.

The officer in charge stated that these were slow moving drugs which had been donated while approaching expiry date. The financial value was not determined due to absence of relevant documents. I have advised management to liaise with Ministry of Health and have the drugs safely disposed off.

(c) Storage Condition

The roof and walls of the drugs store are lined with cracks, and could collapse. Beside, there is risk of rain water leakage. Management stated that the hospital master plan has provided for a new stores building. I advised management to prioritize the repair of the stores building.

61.6 Staffing

There were 34 vacancies for which management explained that the issue is being addressed in liaison with the Ministry of Health. Verification of staff payroll also
for the month of May 2010 revealed 16 staff members who were on payroll but not on staff list. There is a risk of paying staff who have been transferred. I advised management to follow up the issue of staff gaps and to update the staff list appropriately.

61.7 **General State of Buildings**

Inspection of the newly renovated buildings revealed the following;

(a) **Ward 4 & 5**
- Door locks are not functioning properly and three lever union mortice locks were not fitted as prescribed in the bills of quantities (BOQ).

- Roofing timber and the ceiling soft boards have started falling in some parts while the external Eastern wing toilets are not functioning and were locked by the contractor. Two wash hand basins fitted were not functioning properly and two wall glass mirrors are not fitted.

(b) **Casualty Ward**
- The door locks are not functioning and three lever union mortice locks were not fitted as per BOQs.
- A concrete ceiling was not made and instead old soft ceiling boards were painted and the roof is leaking at the main entrance contrary to the Bills of Quantities.
- Two fitted toilets and the electric sockets were not functioning properly.
- Some windows were not fitted with stays.

(c) **Maternity Ward**

Three lever union mortice locks were not fitted to the main doors as prescribed in the Bills of Quantities.

- The main door to external toilets was not replaced and instead the old one was only painted.
• Eastern wing windows were not fitted with permanent bat proof gauze vents and coffee tray wire backing completed with all necessary timber framing and beading as per BOQs.

I have advised that the contractor rectified these defects before the retention is paid. In addition, supervision should be strengthened.

61.8 **Absence of Incineration facilities**

The Hospital does not have an incinerator as Medical waste is disposed off by use of open pit burning, within the hospital premises. This disposal method is environmentally unsuitable. Management stated that an incinerator had been included in the Hospital master plan. It is recommended that management liaises with Ministry of Health in order to have a safe, disposal of hospital waste.

61.9 **Unaccounted for Non Tax Revenue**

Reconciliation of revenue collections, bankings and expenditure revealed that cash collections of Shs.11,924,530 were not banked. There is risk of misappropriation of cash. Management pledged to reconcile records and render accountability.

I await reconciliation and accountability for the funds.

62.0 **LIRA HOSPITAL**

62.1 **Staffing Gaps**

A review of the Approved establishment structure revealed that the Hospital was experiencing staffing shortages especially at the senior level positions as shown below:

<table>
<thead>
<tr>
<th>Position</th>
<th>Approved posts</th>
<th>Filled posts</th>
<th>Vacant posts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior consultants</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Category</td>
<td>12</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----</td>
<td>---</td>
<td>----</td>
</tr>
<tr>
<td>Consultants</td>
<td>12</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Medical Officers (special grade)</td>
<td>11</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Medical Officers</td>
<td>10</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Clinical Officers</td>
<td>16</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Accounts Section</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Inadequate staffing negatively affects service delivery.

Management further indicated that efforts by the Health Service Commission to fill gaps have not yielded due to poor remuneration, lack of accommodation and the District being a ‘hard-to-stay’ area.

I have advised management to consult with Ministry of Health with a view to securing incentives to attract staff at senior level.

62.2 **Expired Drugs**

An assortment of drugs had expired and were still being kept in the stores. There is a risk of the expired drugs being misused.

Management explained that the matter had been brought to the attention of the Ministry of Health.

Management was advised to follow up the issue of disposal of expired drugs with the Ministry.

62.3 **Undelivered Drugs and Medical Supplies**

A comparison between the National Medical Stores delivery records and the Hospital records for the 4th quarter revealed that whereas the Hospital was invoiced Shs.94,618,917 worth of drugs, only Shs.44,849,917 was received as detailed in the table below.
<table>
<thead>
<tr>
<th>Item</th>
<th>Invoice Qty</th>
<th>Actual delivery</th>
<th>Ugx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canula IV with port &amp; stopper 24G 1.9mm</td>
<td>20 x 100</td>
<td>Nil</td>
<td>654,000</td>
</tr>
<tr>
<td>Erythromycin 250mg tabs</td>
<td>106 x 1,000</td>
<td>Nil</td>
<td>5,841,200</td>
</tr>
<tr>
<td>Magnesium trisilicate 250 + 20mg tabs</td>
<td>5tins</td>
<td>4tins</td>
<td>3,800</td>
</tr>
<tr>
<td>Canula IV with stopper 22F 0.7 mg</td>
<td>1,000 x 100</td>
<td>Nil</td>
<td>40,000,000</td>
</tr>
<tr>
<td>Canula IV with stopper 22G 0.7 mg</td>
<td>100 x 100</td>
<td>Nil</td>
<td>3,270,000</td>
</tr>
</tbody>
</table>

**49,769,000**

Management in their response explained that the issue had been communicated to National Medical Stores and a response is awaited.

Management was advised to make a follow up on the undelivered drugs and medical supplies.

**63.0 MASAKA HOSPITAL**

**63.1 Doubtful Deductions and Allowances on the Payroll**

Verification of the Hospital payroll for the financial year paid through the straight through process revealed that, Shs.92,039,870 was the total deductions made and Shs.241,749,259 total allowances paid to staff respectively. However, management could not explain what these allowances and deductions constituted of.

I requested management to provide the breakdown of both allowances and deductions effected on its officers but this was not done.

**63.2 Outstanding Obligations to Uganda Revenue Authority**

The Hospital through the straight through process operated by the Ministry of Finance purportedly remitted a total sum of Shs.159,901,201 to Uganda Revenue Authority in respect of PAYE. However, receipts from Uganda Revenue Authority were not availed to confirm remittance of the above funds.
I advised management to ensure timely remittance of statutory deductions to the relevant authorities to avoid penalties and also to avail Uganda revenue authority receipts as evidence that these funds were indeed remitted to the tax body.

63.3 **Outstanding Commitments**

At the close of the financial year, outstanding commitments of the hospital for electricity stood at Shs.123,978,350 and water at Shs.160,406,943, this arose from Management failure to settle its outstanding obligations.

In response the Accounting Officer stated that this anomaly arose because the utility budget provision did not cover the hospital consumption due to revision of tariffs, increased number of patients and the dilapidated electricity and drainage system.

I advised Management to settle their bills as and when they fall due to avoid possible disruption in service delivery. Management should contact the concerned Ministry to have their utility budget revised.

63.4 **Uncollected Non Tax Revenue**

The hospital budgeted to collect Shs.387,144,000 from its non tax revenue sources. However, only Shs.233,381,250 was collected resulting in a short fall of Shs.153,762,750 representing 40% of the budgeted non tax revenue.

The under collection led to some planned activities not being undertaken.

In response the Accounting Officer stated that this shortfall was attributed to the closure of the main operating theatre, constant power outages which affected utilization of X-ray and Ultra sound examinations and transfers of some key staff with no replacement.

I advised management to ensure such short falls are minimized.
64.0 **FORT PORTAL HOSPITAL**

64.1 **Procurement Anomalies**

64.1.1 **Unauthorised Direct Procurements**

It is a requirement by the Public Procurement and Disposal Act Regulation 40(1) that the contracts committee approves a direct procurement method prior to the commencement of the procurement. On the contrary, the Hospital made direct procurements worth Shs.192,599,217 without authority of the contracts committee.

Management should adhere to the provision of the PPDA Act.

64.1.2 **Abandoned Construction of a Car Shed**

A contractor was procured to construct a car shed at a contract sum of Shs.27,464,000 and accordingly paid advance of Shs.7,744,848 equivalent to 30% of the contract sum. However, physical inspection of the works revealed that the contractor had done only preliminary works and abandoned the works since May 2010.

In response, management promised to address the matter with the contractor.

Management should review the contract and ensure completion of the works. The photograph shows the abandoned works.
64.2 **Accumulation of Expired Drugs**

During inspection of stores it was noted that there was a stock of expired drugs, some of which expired in 2004. Management attributed the expiry to supplies with short shelf life. The monetary value, dates of receipt and suppliers could not be established as there were no records. Accumulation of expired drugs reduces storage capacity for new supplies. Appendix iv refers.

Management indicated that joint efforts with Ministry of Health were underway to ensure disposal of expired drugs.

I advised the Accounting Officer to closely liaise with suppliers to ensure adequate shelf life of drugs and to expedite the disposal process for expired drugs.

64.3 **Staffing Shortages**

Out of staff establishment of 393 only 247 positions were filled indicating a staffing gap of 146. For instance out of the 4 positions of senior consultants only 1 is filled leaving 3 vacant and out of the 10 consultant positions only 1 is filled leaving 9 vacant. The limited number of consultants impairs referral services. It was also noted that the Director of the Hospital lacks a deputy and carries out both clinical and administrative duties.

Management attributed staff shortages to low remuneration.

I advised management to liaise with relevant authorities on the issue of understaffing.

64.4 **Lack of Adequate Accommodation**

The hospital has only 2 habitable units occupied by 4 members of staff. The rest of the 16 houses occupied by 70 members of staff were condemned 10 years ago.
I advised management to liaise with the Ministry of Health and that of Finance Planning and Economic Development to address the infrastructure gap of the hospitals.

**64.5 Accumulation of Outstanding Utility Bills**

Accounting officers are not allowed under the commitment control system to incur expenditure or enter into commitments beyond budgetary provisions, as per treasury accounting instructions paragraph 146 (2004). Contrary to this regulation, the hospital, consumed electricity and water outside the authorised estimates by Shs 96,597,535. The Hospital was exposed to the risk of litigation and disconnection of services.

The Accounting Officer explained that due to utility billing coming in at the end of the month it makes it difficult to abide by the commitment control system. However the issue has been raised with the relevant authorities.

Services should be procured after ascertaining that the available cash resources can meet the obligations. In case of utilities, management should endeavor to seek extra funds.

**64.6 Inadequate Sewerage Budget**

The hospital incurs Shs.2,400,000 per month on cess pool emptiers since it is not connected to the National Sewerage line. Considering the approved monthly budget of Shs.391,667 there is a monthly deficit of Shs.2,008,333 that result into accumulation of arrears.

Management explained that due to location in a low lying area, the engineering possibilities of connection to National Sewerage line were limited.

I advised management to liaise with Ministry of Health and Finance to determine a long lasting solution.

**64.7 Hospital Capacity**

The Referral hospital covers districts of Kabarole, Bundibugyo, Kasese, Kamwenge, Kyenjojo, Kyegegwa and Ntoroko. The region has a population of
approximately 2,300,000 people. The hospital has got only 19 qualified doctors implying a Doctor : Patient ratio of 1:121,000. The recommended World Health Organization ratio is 8:100,000.

I advised management to liaise with Ministry of Health to post additional Doctors to the Hospital.

### 65.0 KABALE HOSPITAL

#### 65.1 Construction of Private Wing

The Hospital constructed a private wing at a cost of Shs. 2,657,035,984. However, when measurement of the sampled five of the toilet and single rooms were taken they were not consistent with the architectural drawings as detailed below:

<table>
<thead>
<tr>
<th>Area</th>
<th>Measurement</th>
<th>Per drawing plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toilet room</td>
<td>1457mmX 1800mm</td>
<td>1800mm X 1800mm</td>
</tr>
<tr>
<td>Single rooms</td>
<td>3704mm X 4040mm</td>
<td>3800mm X 4800 mm</td>
</tr>
<tr>
<td>Balcony</td>
<td>1700mm</td>
<td>1500mm</td>
</tr>
</tbody>
</table>

I advised management to consult with the supervising engineer to establish the cause of the anomaly to ensure that in future such anomalies are avoided.

#### 65.2 Drug Stores Irregularities

#### 65.2.1 Lack of monthly stock taking reports

There was no monthly stock taking of drugs contrary to the requirements of Section 104 of the Treasury Accounting Instructions that provide for monthly stock taking. For the financial year under review only two reports were produced which were also not dated and signed by the responsible persons.
65.2.2 **Review of the stock taking reports**

A review of the Stocktaking report mentioned above and store cards revealed that, there were less drugs than what was on the stock cards and vice verse. Misappropriation of the drugs may not be ruled out in the circumstances.

The Accounting Officer attributed the problem to poor record keeping.

I advised Management to investigate the variances and take appropriate action.

65.3 **Incomplete Asset register**

The asset register presented for audit lacked vital information such as the asset cost/value, condition of the asset, and detailed asset description among others rendering asset verification difficult.

Management indicated that, the asset register template being used was provided by the Accountant General’s Office and could not be amended.

I advised the Accounting Officer to consult the same office and fill in missing information.

65.4 **Expired Drugs**

During our review, we observed that there were drugs which had expired way back in 2007, in addition the expired drugs occupied a substantial space which could have been used for other purposes.

The Accounting Officer explained that, it was the responsibility of the Ministry of Health to collect and dispose of the expired drugs.

I advised management to follow up the issue with the Ministry for action.

65.5 **Undisposed of Motor Vehicles**

Two vehicles namely Land Rover ambulance registration number UM 0515 and Peugeot ambulance registration number UPX 364 which had been recommended
for board off after the Board of Survey carried out in 2007 had not been disposed off contrary to regulations. The vehicles were losing value due to continued wear and tear.

Management explained that, the process of disposal was underway.

I advised the management to dispose of the vehicles to avoid any further loss.

65.6 **Delivered Drugs not Ordered for**

Drugs that were not ordered for were delivered by National Medical Stores to the Hospital and charged on the hospital account. Details are shown below:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Qty in stock</th>
<th>Qty delivered</th>
<th>Cost(UGX)</th>
<th>Expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acetylsalicylic acid</td>
<td>16000 tabs</td>
<td>10000 tabs</td>
<td>47,885</td>
<td>Dec 2010</td>
</tr>
<tr>
<td>Epinephrine/Adrenaline</td>
<td>3000 amps</td>
<td>1000 amps</td>
<td>1,328,767</td>
<td>Nov 2011</td>
</tr>
<tr>
<td>Aminophrine inj 250mg</td>
<td>6300amps</td>
<td>1000amps</td>
<td>348220</td>
<td>Dec 2012</td>
</tr>
<tr>
<td>Lidocaine 2% Inj</td>
<td>2575 vials</td>
<td>50 vials</td>
<td>41021</td>
<td>Jan 2010</td>
</tr>
<tr>
<td>Oxytocin Inj 10mg</td>
<td>600 amps</td>
<td>5000 amps</td>
<td>1,411,074</td>
<td>Jun 2011</td>
</tr>
<tr>
<td>Halopeldol inj 5mg/1 ml</td>
<td>1700 vials</td>
<td>250 vials</td>
<td>337,206</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>Chlohexidine gluconate</td>
<td>20 liters</td>
<td>20btl of 500ml</td>
<td>115,931</td>
<td>Mar 2012</td>
</tr>
<tr>
<td>Tetracycline oint 1%</td>
<td>1050 tubes</td>
<td>100 tubes</td>
<td>43,498</td>
<td>Apr 2011</td>
</tr>
</tbody>
</table>

The drugs were not returned to supplier.

I advised management to ensure that the drugs that are not required are returned.

65.7 **Lack of Hospital Board**

The Regional Referral Hospital does not have a Hospital board contrary to Ministry of Health (2003) Department of Quality Assurance circular. Lack of Hospital Board hampers the smooth running of the Hospital.

Management explained that, a submission of recommended persons had been made to the Ministry of Health for approval
I advised Management to follow up the matter and ensure that the board is instituted.

65.8 **Understaffing**

The Regional Referral Hospital is understaffed despite receiving high number of patients. Out of 325 staffing positions, only 200 positions were filled leaving a gap of 125 (38%) un-filled. Details are shown below:

<table>
<thead>
<tr>
<th>Staff Post</th>
<th>Approved</th>
<th>Filled</th>
<th>Vacant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Consultants</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Consultants</td>
<td>10</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Medical Officers(Special Grade)</td>
<td>11</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Medical Officers (General)</td>
<td>10</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Clinical Officers</td>
<td>12</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Pharmacy staff/ Dispensers</td>
<td>7</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Nursing / Midwifery</td>
<td>121</td>
<td>69</td>
<td>52</td>
</tr>
<tr>
<td>Other Allied Health Professionals</td>
<td>60</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Finance &amp; Administrative Officers</td>
<td>35</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Other support staff</td>
<td>55</td>
<td>55</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>325</td>
<td>200</td>
<td>125</td>
</tr>
</tbody>
</table>

The high number of patients received and low staff numbers impact on the quality of medical services as staff are overworked.

I advised the management to lobby for facilitation and funding to fill the vacant positions so as to improve on service delivery.

65.9 **Constant Load Shedding at the Hospital**

The Hospital has constant load shedding and the existing generator does not automatically start. There is also no power backup system.
There is therefore a risk of loss of life during surgery and insecurity in case of load shedding.

I advised management to lobby for a 24 hour connection or procure an auto start generator and theatre power back up system to mitigate the risk of loss of lives.

66.0 **HOIMA HOSPITAL**

66.1 **Irregular Procurements**

Procurements of Shs.112,452,389 lacked relevant supporting documents such as local purchase orders, goods received notes and tender award letters. Included in the procurements was a payment for a vehicle worth Shs.82,362,331 that was not delivered

I advised Management to submit the relevant documents and ensure delivery of the vehicle.

66.2 **Unsupported Payables**

Out of the reported payables of Shs.156,909,584 documents for Shs.96,814,839 were availed for verification leaving Shs.60,094,745 unsupported. Unsupported payables are potentially fraudulent.

I advised management to submit the documents or restate the payables in the financial statements.

66.3 **Unpaid Salary Arrears**

Shs.40,870,155 remained un-paid to various staff as at 30\(^{th}\) June, 2010. Management attributed the anomaly to failure by Ministry of Public Service and Ministry of Finance Planning and Economic Development to process some of the submitted pay change reports. Besides the liability was not disclosed in the financial statements.
Delayed payment of salary results into Loss of staff motivation which affects performance.

I advised the Accounting officer to follow up the matter with the Ministry of Public Service.

66.4  **Expired Drugs**

During inspection of the stores it was noted that the stock of expired drugs for the last six years had increased mainly due to supply of drugs with short shelf life. The table below refers;

<table>
<thead>
<tr>
<th>No</th>
<th>Drug type</th>
<th>Quantity</th>
<th>Date of Expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MJ Vitamin K</td>
<td>200AMPS</td>
<td>September 2009</td>
</tr>
<tr>
<td>2</td>
<td>Tab Loperamide</td>
<td>160</td>
<td>November 2009</td>
</tr>
<tr>
<td>3</td>
<td>Tab Metclprimide</td>
<td>3,000</td>
<td>July 2010</td>
</tr>
<tr>
<td>4</td>
<td>My CAF in Oil</td>
<td>130AMPS</td>
<td>July 2010</td>
</tr>
</tbody>
</table>

Accumulation of expired drugs may result into some drugs released to the open market.

Management explained that a request for disposal of the drugs had been made with Ministry of Health.

I advised the Accounting Officer to follow up the matter.

66.5  **Under Staffing**

Out of staff establishment of 41 only 13 positions were filled leaving 28 vacant. Out of 4 positions of senior consultants only 1 was filled and out of the 10 positions for consultants only 3 were filled leaving 7 vacancies. The table below refers.
<table>
<thead>
<tr>
<th>Post</th>
<th>Approved establishment</th>
<th>Filled</th>
<th>Vacant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior consultants</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Consultants</td>
<td>10</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Medical Officers (Special Grade)</td>
<td>13</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Medical Officers</td>
<td>12</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Senior Dental surgeon</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Dental surgeons</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Inadequate staffing of consultant positions impairs referral services at the hospital.

The Accounting officer explained that a request to fill staffing gaps was made with Ministry of Health.

I advised management to liaise with ministry of Health to fill the vacant positions.

66.6 **Failure to Update Assets Register**

The Public and Procurement and Disposal of Public Assets Act (PPDAR) 2003, section 337(h) requires procurement and disposing entity to update its assets regularly. Review of the Assets register revealed the following anomalies;

- Some existing Assets were not recorded.
- Values attached to some Assets were unrealistic since they were dysfunctional.
- Most of the Assets were not engraved.
- There was no disposal plan for obsolete items.
I advised Management to ensure that the Assets register is updated regularly and all Hospital assets engraved on acquisition before such assets are issued for use.

67.0 **SOROTI HOSPITAL**

67.1 **Falsified Accountability**

Out of Shs.17,500,000 paid to a District staff, accountabilities for Shs.8,000,000 were falsified as they show payment for full board accommodation yet the workshop was a non-residential training of health workers on integrated prevention of mother to child transmission.

Management explained that they have since written to the concerned officer for explanation regarding the matter and his response is being awaited.

I have advised management to investigate the matter with a view of recovering the funds and taking administrative action on the concerned officer.

67.2 **Land dispute between Soroti Referral Hospital and a Telecommunications Company**

Scrutiny of Soroti Regional Referral Hospital land title revealed that the regional office of a telecommunication company is located on the land of the hospital. This has affected the structural planning of the hospital and the hospital stands a risk of losing this land.

Management explained that the company was approached about the matter and instead the company has responded by threatening to sue the Hospital.

I have advised management to seek guidance from Attorney General on the matter.
67.3 **Level of Staffing**

The Hospital is understaffed. Out of the staff establishment of 330 positions only 270 are filled. Lack of sufficient staffing in key positions affects health service delivery.

Management explained that the matter had been brought to the attention of Ministry of Health.

Management should liaise with the line Ministry to ensure that the staffing gaps are filled as per the approved structure.

67.4 **Takeover of Hospital houses by Former Staffs**

The hospital was allocated with some pool Government houses by the Chief Administration Officer, Soroti District in 2007. Subsequently the Hospital Management instructed two staff to occupy the houses on plot No 81 Gweri road and plot No. 14/16 BR NO.17 Lale road respectively.

It was noted that later the said staff left the hospital and claim ownership of the houses. This has affected the ongoing structural planning of the hospital. The hospital stands to lose these properties if following is not made.

Management explained that appropriate action was taken by writing to the affected staff to vacate the two properties with a deadline and they declined. Management went ahead to engage a court broker for forceful eviction; however, they have since received a court injunction to stop the eviction.

Management should seek guidance from the Attorney General for purposes of recovering the properties.

67.5 **Un-accounted for Funds**

Shs.8,656,700 paid to several staff to undertake official activities remained unaccounted for, contrary to Financial Regulations. In the absence of relevant
accountabilities, it becomes difficult to ascertain that the intended activities were indeed implemented.

I have advised management to enforce controls relating to accounting for funds as provided in the regulations.

67.6 **Expired Drugs**

A substantial amount of expired drugs had accumulated in the hospital stores. Unfortunately, management did not maintain an updated list of expired drugs and consequently, I was unable to ascertain the quantity and value of these expired drugs.

Management explained that the records were not up to-date because the store is managed by one Stores Assistant who is overwhelmed by the workload. Management further indicated that communication was made to the Accountant General and another Stores Assistant has been posted.

I have advised management to contact Ministry of Health regarding disposal of the expired drugs. With regard to record keeping, a clear stock management system should be maintained to enable proper monitoring of movement of drugs.

68.0 **MBARARA HOSPITAL**

68.1 **Over Commitments**

The Hospital had accumulated commitments of Shs 411,313,127 contrary to the commitment control system prescribed in the Treasury Accounting Instruction 146. Accumulation of commitments may lead to litigations and other related costs.

Management explained that, the over commitments were caused by budget cuts when commitments were already entered into.
I advised the Accounting Officer to strengthen control on creditors to minimize accumulation of debts. The Commitment Control System should be complied with.

68.2 **Defects in the Rehabilitation Work of the Hospital**

The Hospital was undertaking rehabilitation and expansion of Wards worth Shs.603,121,980. Because of lack of an Engineer, the Hospital was using the University Engineer for supervision. On inspection of construction sites, I observed that there were unsatisfactory works as indicated per contract shown below;

68.3 **Suspension of the Works**

(i) **Surgical Ward**

Construction at the surgical ward at Shs.177,244,236 was still in progress at the time of the audit, the following observations were made;

- The Gas Cylinder chamber was not yet complete.
- The ceiling of existing Surgical Ward was damaged on the right wing and no repairs had been made. The damage was caused by the extension works done without properly protecting the existing one. The University Engineer had verbally instructed them to rectify the defects but no written instructions were presented for review.
- The disabled ramp was not finished well according to the Engineer.
- Wall finishings were not done as required by the designs and Bills of quantities. The walls were rough.

(ii) **Medical Ward**

It was revealed that the construction of the medical ward was to cost Shs.282,724,519. The water pipes leading to the sink were passing through the window openings directly due to inaccuracies in drawings and the building setting.
(iii) **Pediatrics ward**

It was noted that the contract to construct the pediatrics ward was for Shs.203,153,225 water pipes leading to the sink were passing through the window opening directly and the painting has started peeling off.

Management explained that, the work was in progress and the issues will be addressed.

I urged the Hospital management to withhold payments to the Contractors whose defects have not been rectified.

68.4 **Deviations from Bills of Quantities and contract**

There were deviations from the Bills of Quantities in the following areas;

a) Although the Contractors had quoted for the water bill as indicated in the table below, all the Contractors were using tap water connected to the Hospital water line and it was not metered. Details are shown below:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Contract</th>
<th>Amount (Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mupa Technical Services</td>
<td>Renovation and Extension of Pediatric ward at Mbarara Regional Referral</td>
<td>2,000,000</td>
</tr>
<tr>
<td></td>
<td>Hospital; MRRH/WORKS/09-010/00019</td>
<td></td>
</tr>
<tr>
<td>Mupa Technical Services</td>
<td>Renovation and Extension of Medical ward at Mbarara Regional Referral</td>
<td>2,000,000</td>
</tr>
<tr>
<td></td>
<td>Hospital; MRRH/WORKS/09-010/00018</td>
<td></td>
</tr>
<tr>
<td>Oats Engineering &amp; trade</td>
<td>Renovation and Extension of Surgical Ward at Mbarara Regional Referral</td>
<td>200,000</td>
</tr>
<tr>
<td>services Ltd</td>
<td>Hospital; MRRH/WORKS/09-010/00020</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4,200,000</td>
</tr>
</tbody>
</table>
b) The gauge for steel doors and windows was not specified in the bills of quantities (B.O.Qs) and as a result the contractor supplied steel works that were weak.

As a consequence, the Hospital will end up paying the water bill for construction catered for in the bills of quantities leading to double payment.

Management explained that, they had communicated to the contractors and deducted the amount but on verification deductions had not been made.

I advised Hospital administration to recover the funds from the contractors and to ensure that works where poor steel was used is rectified.

68.5 **Lack of Corporate Strategy**

Interview with Top Management revealed that the Hospital lacks a corporate strategy to guide Management on the implementation of strategic decisions. This may lead to unfocussed service delivery and inability to achieve the Referral Hospital mandate. Management indicated that they were in the process of engaging a consultant to develop one.

I urged management to develop a comprehensive Corporate Strategy to direct Management in achieving the Hospital mandate.

68.6 **Understaffing**

The Regional Referral Hospital is understaffed. Out of 368 positions, only 294 were filled leaving a gap of 74 (20%) un-filled. See details below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Positions</th>
<th>Filled</th>
<th>Vacant</th>
<th>% Vacant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialists</td>
<td>29</td>
<td>12</td>
<td>17</td>
<td>23%</td>
</tr>
<tr>
<td>Medical officer and dental surgeon</td>
<td>11</td>
<td>11</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Nurses and midwives</td>
<td>150</td>
<td>139</td>
<td>11</td>
<td>15%</td>
</tr>
<tr>
<td>Category</td>
<td>Number</td>
<td>Vacant</td>
<td>Total</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Allied health professionals and pharmacists</td>
<td>68</td>
<td>49</td>
<td>19</td>
<td>26%</td>
</tr>
<tr>
<td>Administrative and Finance cadre</td>
<td>41</td>
<td>25</td>
<td>16</td>
<td>22%</td>
</tr>
<tr>
<td>Other medical professional cadres</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>4%</td>
</tr>
<tr>
<td>Support staff</td>
<td>61</td>
<td>53</td>
<td>8</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>368</strong></td>
<td><strong>294</strong></td>
<td><strong>74</strong></td>
<td><strong>20%</strong></td>
</tr>
</tbody>
</table>

Inadequate staff negatively impact on the quality of medical services.

I advised management to follow up the matter in order to fill the vacant positions to improve on service delivery.

68.7 **Constant Load Shedding at the Hospital**

The Hospital had constant power cuts and relied on a generator which does not automatically start. There is also no power backup system for critical departments (theatre).

As a result, power cuts may lead to fatal accidents, for example, when operations are going on.

I advised management to ensure a 24 hour power line connection or procure an auto start generator and power back up system to encounter constant load shedding.

68.8 **Drugs Ordered for but Partially or Not Delivered by the National Medical Stores**

Review of the Local Purchase Orders, deliveries and delivery reports generated by the Hospital Stores revealed that there were drugs that were ordered for but were either partially or not delivered at all.

In some instances National Medical Stores supplied drugs different from those ordered for.
I advised the Hospital Management to liaise with the National Medical Stores and reconcile the account to ensure appropriate deliveries.

69.0 **MOROTO HOSPITAL**

69.1 **Un-accounted for Funds**

Shs.7,551,700 paid to various officials for certain activities remained unaccounted for since it lacked supporting documents of accountability like receipts, attendance list and reports contrary to provisions of the Public Finance and Accountability Act, 2003 and regulations 181 and 215 of the TAIs-Part I 2003.

I was unable to confirm whether the funds were used for the intended purpose.

Supporting documents for the balance for the amount should be availed for audit verification.

69.2 **Fixed Assets**

Treasury Accounting Instruction 400(h) requires an entity to maintain fixed assets registers for all assets it owns in the format shown on Treasury form 89. However, Hospital asset registers were not available for verification yet a number of assets were transferred to it when it became a Referral Hospital. Besides title deeds and vehicle registration books were not availed for verification.

I was unable to verify ownership and utilization of the Hospital assets. There is a risk that Council assets may be misused.

Management explained that an asset management officer was transferred to Soroti, the software had been got from the Ministry of Finance Planning & Economic Development and the necessary training of users was underway.
Management should ensure that the necessary training is conducted to enable maintenance of proper assets registers in accordance with Treasury Accounting Instructions.

69.3 **Staffing Levels**

The hospital is understaffed; out of 340 positions, only 112 positions are filled representing 67% understaffing. Some of the critical posts were not filled including senior consultants. Understaffing negatively affects delivery of health services at the Hospital.

In their response, Management admitted that the hospital does not have some of the key staff positions filled as per the recommended structure of a regional referral hospital however the Ministries of Finance Planning and Economic Development and Health are following up the staffing gap.

Management was urged to follow up the staffing issue with the concerned Ministries.

69.4 **Staff Accommodation**

It was noted that accommodation for doctors and other medical staff was not sufficient within the hospital. Staff stay long distances away from the hospital yet transport in the region is also difficult. As a result the medical staff may not be able to respond to emergencies promptly.

Management acknowledged the accommodation inadequacy and indicated that the Ministry of Health is in advanced stages of acquiring consultancy services for an investment plan for the hospital and it is anticipated that the accommodation problem may be addressed accordingly.

Management was urged to follow up the matter of accommodation with the responsible Ministries.
69.5 **Lack of Hospital Incinerator**

The hospital does not have a well functioning incinerator. The incinerator in use is small and needs major repairs. Besides the hospital does not have an effective mechanism for the destruction of hospital refuse risking the environment.

Management was advised to plan for acquisition of an incinerator.

---

**70.0 MUBENDE HOSPITAL**

70.1 **Lack of a Fire Extinguishers**

The hospital buildings and drug store do not have fire extinguishers for protection of inventories and assets against fire, contrary to Treasury Accounting Instruction Part 2 Stores Paragraph 112 which require particular care to be taken to ensure that fire fighting facilities are adequate and tested at least every six months.

There is a risk of loss of property and inventories in case of a fire. Management acknowledged this anomaly and promised to rectify it as soon as possible.

I advised management to put in place fire fighting equipments for all its buildings and stores as guided by the Treasury Accounting Instructions.

70.2 **Lack of an Incinerator**

The hospital does not have a proper waste disposal system for disposal of wastes and expired drugs. Disposal of wastes is done in an open pit which could be hazardous to the hospital staff, patients and the people in the surrounding area.

Management explained that the incinerator that the hospital inherited from the District is not functioning and requires resources to rehabilitate which the hospital does not have.

I advised the hospital management to lobby resources from the concerned authorities to enable construction of an incinerator.
70.3 **Un-boarded off Hospital Vehicles**

The Hospital owns two very old vehicles a Suzuki reg. no UG 1169M and Peugeot Ambulance reg. no. UG 1117M that have been lying in the hospital premises for a very long time and were recommended for board off.

It was also noted that one of these vehicle Reg. No UG 1117M was not recorded in the hospital assets register. In their response the hospital management explained that the hospital was a new vote that was formerly operating under Mubende District administration and there was no formal hand over yet of assets and liabilities from District to the referral hospital.

I advised the Accounting officer to formalize the issue of transfer of ownership of these assets and then have these written off vehicles boarded off following PPDA guidelines.

---

71.0 **LONDON MISSION**

71.1 **Statement of changes in Equity (net worth) and Cash and Cash Equivalents**

According to the audited financial statements for the year ended 30th June 2009 the closing net worth was Shs.812,412,525. However, the corresponding amount brought forward as opening comparative for the financial year under review was Shs.835,798,305 thus overstating the net worth by Shs.23,385,780. Similarly, audited cash balances of Shs.981,171,301 as at 30th June 2009 were stated at Shs.1,004,557,085 as opening balances for the year under review thus overstating the cash balances by Shs.23,385,784.

Management explained that the variance was a result of changes in the exchange rates which had been applied earlier. However, evidence in support of this assertion was not provided.
71.2 **Non-Tax Revenue**

While operating revenue was reported at Shs.1,189,798,072 in the statement of financial performance and the accompanying note, it was stated at Shs.1,118,047,147 in the statement of cash flow resulting into a variance of Shs.71,750,885.

Management explained that the variance of Shs.71,750,885 represents unrealized rental income from one client occupying the High Commission property. However, accruing rental income in the financial statements is inconsistent with the Accounting Police (d) (iii) which states that non-tax revenue is recognized when received. The financial statements will accordingly require adjustment.

71.3 **Non Compliance with Contracts Committee Decision**

Procurement procedures require all procurements save for micro procurements to be approved by the contract committee. It was noted that management contracted a company to fit curtains at the chancery at a cost of £5,266.12. However, a review of the record of contract committee meeting held on 13th May 2010 revealed that the contract committee had approved, a different company to provide the service.

Further review of the record of contract committee meeting held on 27th April, 2010 revealed that the committee had rejected the close circuit Television (CCTV) system installation at the chancery because only one firm had submitted a quotation. However, management went ahead to contract the firm and paid £3,501.50. This action was irregular and undermined the powers of the contracts committee.

Management should adhere to the contract committee decisions as required under the procurement regulations.
Management explained that the contracts committee was fully briefed on the decision to contract the firm. However, I was not provided with documentation to support this assertion.

71.4 **Recruitment of a Research Assistant**

A review of personnel files at the High Commission revealed that a Research Assistant was recruited at the Commission under the authority of the Permanent Secretary, Ministry of Foreign Affairs. However the following matters were observed;

- The position of a Research Assistant was not provided for in the High Commission structure.
- The schedule of duties was not specified to enable me make an independent assessment of the need to recruit a Research Assistant.
- The recruitment process was not transparent. There was no evidence of interviews being conducted to enable the High Commission pick the best candidate.
- Since the recruitment of a research Assistant was not originally planned for it adversely affected the High Commission’s budget in terms of payment of wage and purchase of furniture for the officer.

Management was advised to always ensure that a needs assessment is undertaken and approval obtained from the Ministry of Foreign Affairs during the process of recruitment of local staff.

71.5 **Issue of Gratis Visas**

It was noted that several visa applicants applied and were issued with visas to travel to Uganda for various reasons ranging from holidays to business and leisure/tours. The applicants comprise students, business persons and professionals like Accountants, IT consultants and Solicitors among others.
However, although indications are that the applicants had the capacity to pay for the visas, they were issued with gratis visas. It was noted that there are no laid down guidelines to be followed at the High Commission to determine eligibility of applicants for gratis visas. The officers responsible receive instructions from the head of Mission to issue the gratis visas as evidenced by internal memo dated 30th April, 2010.

Management was advised develop guidelines to be followed in processing Gratis Visa applications.

**72.0 NEW YORK MISSION**

72.1 **Excess Expenditure**
The Mission incurred expenditure of Shs.9,226,730,400 against Shs.4,141,246,000 approved in budget resulting into an excess expenditure of Shs.5,085,484,400.

Management explained that excess expenditure resulted from use of NTR at source. However, the request for authority to use the money at source had not been responded to by the Ministry of Finance at the time of writing this report.

72.2 **Loan to Uganda Mission**
In August 2007, the Permanent Mission of the Republic of Uganda to the United Nations entered into a loan agreement with Beck Family Partners in which the latter agreed to provide a principal amount of up to US$.750,000, to enable the Mission repair and upgrade the residence of the Permanent Representative located at 111 East 70th street New York which had been damaged by fire. Subsequently, a total of US$.350,000.00 was provided.

By the time of audit, there was no evidence of any repayment despite the 1st installment payment having been due on November 2nd, 2007. It was noted that Interest had accumulated to US$.122,561 by 30th November 2010. The amount
outstanding at the time, was US$.472,561. The Government risks losing the property because the Mission failed to fulfill the contractual terms.

The loan was neither approved by Parliament nor Solicitor General as required by law.

The Accounting Officer explained that the Mission would follow up with the Ministry of Finance, Planning and Economic Development to have funds allocated for this purpose.

72.3 **Property Tax**
At the time of inspection, the Mission had an accrued *Property Tax Bill* to the New York City amounting to $880,508.99 (Approx. Shs.1,937,000,000). This bill had been accumulating overtime but had never been reported in the financial statements. This has the effect of understating the payables balance reported in the financial statements.

The Accounting Officer explained that the assessment was erroneous and the city authorities were notified to make the necessary adjustments. Once the adjustments are agreed upon the liability would be reported in 2010/11 and supplementary funding would be sought accordingly.

The outcome is awaited.

72.4 **Renovation Works on Uganda House**
The Mission has been lobbying Government for funding to do major repairs on Uganda House building but responses have been either not forthcoming or non-committal. Management wrote several letters to Kampala seeking authority to use NTR at source to meet costs or maintenance of Uganda House.

Among the items that were submitted for maintenance interventions were: full sprinkler system and smoke detectors on all floors; fire alarm system; emergency
lighting and appropriate signage; security cameras in the elevators; emergency egress from main lobby; disabled access around the building and; emergency action plan.

The above security shortcomings are not only a breach of New York City Local Laws but had also cost the Mission two key tenants (i.e., the UN secretariat and UNDP who respectively vacated the premises in July 2009 and June 2010 leading to a loss of US$ 95,407 per month (approximately 85 per cent) in rental income).

I have advised management to liaise with the Ministry of Foreign Affairs and that of Finance, planning and Economic Development to get funds for maintenance so that the building complies with the New York City local laws.

73.0 WASHINGTON MISSION

73.1 Excess Expenditure
According to the Statement of Appropriation Account (Based on nature of expenditure for services voted), the Mission was allocated a budget of Shs.2,990,294,932 for operating expenditure. However, actual expenditure for the period totaled Shs.3,584,857,500 leading to excess expenditure of Shs.594,562,568. There was no evidence that supplementary authorization was provided for the excess expenditure. It was also observed that although no funds were provided for capital development, a sum of US $ 532,035.00 (Shs.1,127,605,000) was spent on reconstruction/renovation of the official residence of High Commissioner. This expenditure is also considered extra budgetary.

The Accounting Officer was advised to operate within the approved budget. Where resources are still needed, virements/reallocation warrants or supplementary funding should be sought in accordance with the Public Finance and Accountability Act.
73.2 **Unexplained Deposit**

The origin/purpose of a credit entry made on 30\textsuperscript{th} June 2010 on the NTR Collection Account of US $ 74,730.00 was not explained.

In absence of an explanation, I was not able to ascertain the nature and purpose of the transaction.

The Accounting Officer was advised to investigate the transaction and make appropriate disclosures in the financial statements.

73.3 **Disposal of Mission Vehicle**

A new utility vehicle, Honda Odyssey, was procured for US $ 31,500. According to documents seen during audit, the purchase was a trade-in with the old utility van of the same make which had been valued at US $ 3,900.

I was not provided with evidence to confirm that the US $ 31,500.00 paid for the vehicle was net of the US $ 3,900.00 consideration under the trade-in arrangement.

Besides, the disposal was not reported in the ‘Statement of Disposal of Physical Assets’ during the year ended 30\textsuperscript{th} June 2010.

The Accounting Officer was advised to provide the relevant documentation for verification in future.

73.4 **Non Remittance of NTR**

At the beginning of the financial year under review, the Mission had a balance brought forward of Shs.965,055,684 on its NTR collection account. Shs.1,048,546,040 was collected during the period resulting into a total Shs.2,013,601,724 remittable to the UCF. However, only Shs.917,344,020 was
remitted. Although Shs.255,949,820 was still held as Cash on the NTR Collections A/C, it was noted that the difference of Shs.840,307,884 was spent at source without requisite authority.

I recommended that;
- All collections of NTR should be banked and remitted to Treasury for onward transmission to the UCF.
- The amount spent at source should be regularized in accordance with the Public Finance and Accountability Act.

73.5 **Unspent Balances**

Shs.25,717,254 unspent balances (Treasury General Account) for the financial year ended June 30th 2009 was not yet remitted to the UCF as required by the law.

It is advised that the amount be remitted to the UCF without further delay.

74.0 **NEW DELHI MISSION**

74.1 **Over Expenditure on Goods and Services Consumed**

A review of the draft accounts submitted for audit has revealed that the mission incurred over expenditure on the following budget line:

<table>
<thead>
<tr>
<th>Budget item</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and services consumed</td>
<td>719,490,000</td>
<td>872,599,837</td>
<td>(153,109,837)</td>
</tr>
</tbody>
</table>

Although management explained that they requested for authority from the PS/ST, there is no evidence to show that approval was granted to incur the above over expenditure.
I have advised the accounting officer to always spend according to the approved budgets. Where additional funding is needed, virements should be sought and effected in accordance with established procedures.

74.2 **Fixed Assets Management**

The following observations were noted regarding the management of the fixed assets:-

(a) **Fixed Assets Register**

There is no fixed assets register in place to record all mission fixed assets. This weakens controls over the assets owned by the mission.

I advised management to open up a fixed assets register to record the following asset details:-

- Asset name
- Supplier
- Date of purchase
- Location of the asset
- Unique identification number
- Condition
- Cost/value of the asset

The Accounting Officer promised to have a register in place henceforth.

(b) **State of Mission Properties**

**Furniture**

It was noted that most of the mission furniture are so old. This was attributed to lack of a replacement policy and insufficient funds provided to the Mission.

I advised management to liaise with the ministries of Foreign affairs and that of Finance Planning and Economic Development with regard to funding as asset for replacement.

74.3 **Stores Management**

The Mission does not maintain proper store ledgers that show balances of the various store items. It was also noted that there are no periodic checks of the
store items to confirm whether all stored items are properly being maintained. This implies that any errors made by the store keeper may not be easily detected and corrected.

I advised the Accounting Officer to have a proper store ledger opened to record all receipts, issues and running balances of all store items.

74.4 **Staffing**

(a) **Performance Appraisals**

It was noted that the mission did not undertake any performance appraisals for all staff during the year under review as required by the Public Service Standing Orders. This implies that management was not able to assess the performance of staff and also identify their capacity gaps.

Management should ensure that performance appraisals are undertaken for both the local staff and the Foreign Serving Officers at the mission.

(b) **Schedule of duties**

Examination of the personnel files for all Mission staff revealed that there is no clear schedule of duties for all staff employed by the Mission. This hinders proper assignment of responsibilities as well as assessment of staff performance.

I advised the Accounting Officer to ensure that proper schedules of duties are clearly specified for all Mission staff.

74.5 **Procurement**

The PPDA issued guidelines for procurements and Disposals by Missions abroad meant to address the challenges faced by the missions in trying to comply with the PPDA Act, 2003. However, the following matters were observed:-
(a) **Procurement Plan**

According to Section 6 of the guideline, Missions are supposed to prepare annual procurement plans based on the approved budgets and workplan and submit them to the Authority before the end of the first quarter of the financial year. It was noted however, that there was no such plan prepared by the mission.

(b) **Procurement documents**

It is a requirement under section 90 of the PPDA regulations that all procurement documentation should be properly filed and maintained for each procurement undertaken including minutes of contracts and evaluation committees, evaluation reports and bidding documents. It was noted that no proper files were maintained by the mission for the procurements that were undertaken during the year under review.

(c) **Periodic Reports**

It is a requirement under section 3 of the PPDA guidelines for each Mission to prepare and submit quarterly reports on procurement and disposal to PPDA, using PP Form 200 for macro procurements, PP form 202 for micro procurements and PP form 201 for disposals. It was noted that the mission did not prepare these forms despite the fact that several procurements and disposals were made during the year under review.

74.6 **Contracts Committee**

It was noted that there was no formal appointment of the Mission’s Contracts Committee contrary to the procurement guidelines.

Weaknesses in the procurement function as highlighted above may lead to use of inappropriate procurement methods and prevent the Mission from achieving value for money in the process.
I advised the Accounting Officer to ensure that there is full compliance with the procurement law and guidelines in order to enhance transparency in the procurement process.

**75.0 CAIRO MISSION**

75.1 **Appraisal of Staff**

Uganda Government Standing Orders spell out the importance of performance management in the public service and requires that all employees of government be evaluated periodically.

However, interviews carried out with the Embassy staff and perusal of their respective personal files revealed that staff appraisals were not being done for all the local staff on contract.

There is risk that staff performance weakness may not be addressed on time hence affecting the achievement of the Embassy objectives.

Management was advised to ensure that performance of staff is regularly appraised as required by the Uganda Government Standing Orders.

75.2 **Maintenance of Fixed Assets**

**Chancery Building**

Government of Uganda owns the chancery building. It is a magnified three flour villa situated at plot 66; street 10, Maadi and occupies 750 square meters. The building was acquired in 2002. However, the greatest challenge to the Embassy was the need to have it renovated and regularly maintained.

**Official Residence**

The Government owns the official residence of the Ambassador, a magnified villa situated at plot 48; Orouba Street, Heliopolis occupying 2,201.50 square meters. The Residence was acquired in 1969 and it was recently partially renovated.
particularly with respect to wiring and plumbing works due to financial constraints.
Management explained that consultations had been made and that they had been advised to secure a competent firm to draw the Bills of Quantities for the repairs for inclusion in the Embassy Development Budget for financial year.

Figure 1  Photo by OAG on 17th November 2010 – The chancery - Cairo Egypt

Figure 2  Photo by OAG on 17th November 2010 – one side of the chancery - Cairo Egypt
76.0 ADDIS ABABA MISSION

76.1 Excess Expenditure

The Mission incurred expenditure totaling to Shs.50,877,311 in excess of the approved budget without requisite parliamentary approval.

I advised the Accounting Officer to ensure that the excess expenditure was regularized in accordance with the Public Finance and Accountability Act, 2003.

76.2 Procurements of Goods

Stationery, equipments and furniture procured at Shs.166,836,616 for both the office and staff residences during the period were not supported by Goods Received Notes. As a result, I was unable to confirm that the goods were delivered.
It was further noted that inventory records for consumables like stationery were not being maintained.

Management was advised to put in place a transparent system for receiving goods, their verification and taking on charge before issuance.

76.3 **NTR Remittances to Consolidated Fund**

The Mission collected NTR and remitted Shs.216,963,653 to Treasury as per the Bank Statement. However, only Shs.104,612,758 was acknowledged. Accordingly, I was not able to confirm whether the balance of Shs.112,350,895 was received by the Treasury.

76.4 **Social Security Contributions for non Pensionable employees**

A review of records revealed that no deductions and contributions in respect of social security for locally recruited staff are being made and remitted to the relevant authorities contrary to Ethiopia labour laws and Foreign Service Standing Orders.

Management was advised to ensure that the employment contracts for locally recruited staff comply with the requirement of the National laws relating to social contributions.

76.5 **Periodic Procurement Reports**

It is a requirement under section 3 of the Procurement guidelines for each Mission to prepare and submit quarterly reports on procurement and disposal activities to PPDA using PP Form 200 for macro procurements and PP form 202 for micro procurement.

It was however noted that the Mission did not prepare any of the above reports despite making disposals and several procurements during the year under review.
The Accounting Officer was advised to ensure that the procurement Committee prepares and submits quarterly reports on procurement to the Public Procurement and Disposal Authority (PPDA).

76.6 Expired Tenancy Agreements

The tenancy agreements for the Chancery made on 6th December 1986 and the official residence of the Ambassador both expired 23 and 5 years ago respectively. By the time of inspection, the Embassy had not taken the initiative to have the agreements renewed.

Transacting Government business without a valid agreement puts government into a risky position in case of disagreements. The Accounting Officer was advised to have the tenancy agreements regularize.

76.7 Fixed Assets Register and Engraving

A sample of fixed assets inspected at the Chancery and official residence revealed that the Embassy was not maintaining a comprehensive fixed asset register and the fixed assets were not engraved with the mission’s distinctive marks. In the absence of such a register and distinctive identification, it becomes difficult to trace and keep track of the assets.

Management was advised to maintain a comprehensive fixed asset register for all assets procured showing the following asset details; asset name, date of purchase, name of supplier, cost, location, condition and unique identification number for each of the assets.

76.8 Mission Human Resource Management

Uganda Government standing orders spell out the importance of performance management in the public service and requires that all employees of government to be periodically evaluated.
However, interview with the staff and perusal of their personal files revealed the following inconsistencies:

- Some staff had their terms of employment not clearly stating whether the employees were on permanent or contract terms.
- A number of staff had expired contracts, identity cards and others held identity cards with no expiry dates.
- Appraisals were not done for all the 17 local staff.

Without a functional appraisal system, staff weaknesses may not be addressed on time hence affecting the achievement of the Embassy’s objectives.

Management was advised to ensure periodic appraisal as required by the Uganda Government Standing Orders and also ensure that staff identity cards have validity period to avoid impersonation.

76.9 **Finance Committee Meetings**

It was observed that although the Finance Committee existed and was operational, their meetings during the period under review were irregular. In eight of the twelve months of the financial year 2009/10, no meeting was held. This is contrary to the guidelines provided by the Accountant General which require that such meetings be held regularly. The Finance Committee meetings are meant to provide a forum for agreeing in a transparent manner how the available resources can be optimally utilized. In absence of such meetings it becomes difficult to ascertain whether resources were allocated in the most effective manner.

The Accounting Officer was advised to ensure that the Finance Committee meets regularly.
76.10 **Acquisition of the Embassy Properties**

It is good practice for a foreign Mission to acquire own property in order to reduce on the ever increasing rental costs especially where the country has general necessity to perpetually maintain diplomatic relations in the accreditation region. Based on similar consideration, African countries such as Kenya, Tanzania, Rwanda, Ghana, South Africa etc. and other countries such as UK, Italy, Belgium, Netherlands, etc have already exercised this option given that Addis Ababa hosts the headquarters of the African Union and other important international organizations.

The Uganda Government since 1971 (i.e. for 39 years) has spent over US$2,393,825 million in rental costs for both the Chancery (office) and official residence. The Government has not yet taken up the opportunity offered by Ethiopian Government in 2004 to facilitate land lease holding and acquisition of land by diplomatic missions and international organizations in Addis Ababa in order to obtain own permanent structures for offices and residences for staff. The Ethiopian Mission has already written a viable proposal to Ministry of Foreign Affairs to this effect which could see the Uganda Government acquiring the official residence, its plot and an additional 2000 Sq.m for only US$ 926,322.43.

I recommend that Ministry of Foreign Affairs pursues this matter with Ministry of Finance, Planning and Economic Development for funding of this proposal to save Government from the ever increasing rental costs.

77.0 **BEIJING MISSION**

77.1 **Inconsistencies in Disclosed Balances**

The Statement of Financial Performance reflects Shs.1,619,773,579 as transfers received from Treasury and Shs.2,456,438,121 as total expenditure. However, the Statement of Reconciliation between total expenditure per Appropriation Account to total expenditure in Statement of Performance and Note 5 to the
accounts reflects the transfers received from Treasury at shs.1,549,774,000 while the total expenditure in the Statement of Appropriation Account (Based on Nature of Expenditure Voted) is stated at Shs.2,071,807,178. These inconsistencies were not explained.

The Accounting Officer was advised to investigate the inconsistence and take appropriate action.

78.0 **TOKYO MISSION**

78.1 **Mission Vehicle (Toyota Crown)**

The Mission owns three vehicles (i.e. the representation car, Toyota Celsur bought in 2005; the staff vehicle, Toyota Crown bought in 1997; and utility vehicle, Toyota Estime bought in 2006).

It was observed that the Toyota Crown which was 13 years old was no longer economical because maintenance and insurance costs for older vehicles are very high in Japan. This matter was also pointed out in my previous audit report.

The Accounting Officer appreciated the recommendation and promised to expedite the implementation process.

78.2 **Mission Computers**

It was noted that the Mission was using a number of computers that were more than 10 years old. During inspection it was observed that the computers were showing signs of crashing as the screens were not clear and the speeds were very slow. The Mission also did not have a central back up system to store the data. There is a risk of the Mission losing vital data as a consequence of using obsolete computers.

Management was advised to liaise with the relevant authorities to have the computers replaced.
79.0 **TRIPOLI MISSION**

79.1 **Excess Expenditure**

The mission incurred expenditure of Shs.1,122,333,424 against an approved budget of Shs.1,118,000,000 resulting into excess expenditure of Shs.4,333,424. The source and the authority to spend in excess of the appropriated budget was not provided.

The Accounting Officer was advised to spend within appropriate amounts. Where additional resources are required, supplementary appropriation should be sought in accordance with regulations.

79.2 **Transfers to Other Organization**

According to the statement of financial performance, the transfers to other organizations (Note 14) was stated at Shs. 4,682,500. However, note 14 reflected Shs.9,130,000 causing a difference of Shs.4,447,500 which was not explained.

I advised the Accounting Officer to have the discrepancy investigated and appropriate action taken.

79.3 **Irregular refunds of medical bills**

Contrary to chapter 3 section F-a of the foreign service standing orders on medical treatment that requires officers serving with the mission together with their spouses and children to be registered with a doctor and dentist abroad, the mission paid out individual bills and made refunds to officers amounting to €3,287.07 for expenses incurred on treatment without prescription from qualified medical personnel.

Management was advised to identify a suitable medical insurance scheme to handle staff medical treatment.
79.4 **Obsolete/Old items at the Mission**

Records available indicate that there are various items at the Mission reported either as old or obsolete but being kept at the Embassy premises. The items include two vehicles reported as very old and one vehicle as obsolete. Other items include furniture and other utensils used at the Embassy. The continuous keeping of the items at the Embassy implies improper usage of storage space and loss of value of the items.

Management was advised to have the items disposed off in accordance with established procedures for disposal.

---

**80.0 RIYADH MISSION**

80.1 **Medical Insurance Scheme**

The Uganda Public Service Standing Orders, Medical Attention and Hospital Treatment (M) Outside Uganda Sec 9, requires Foreign Service Officers to be covered by a group medical insurance. However, the staff were not under any scheme and were being refunded medical expenses which could have been taken care of by the scheme.

The Mission should seek the services of a medical insurance provider as required by the Standing Orders.

---

**81.0 COPENHAGEN MISSION**

81.1 **Foreign Exchange Loss/Gain**

According to the statement of finance performance, an exchange loss amounting to Shs.156,048,016 was incurred by the embassy during the period under review.
Management explained that when the embassy migrated to a new computerized NAVISION accounting system, there were balances of approved budget funds that could not be accessed through the new NAVISION system for spending. When Accountant Generals office was consulted, they were advised to access the funds by charging payments to Vote item 221018 (Foreign Exchange Loss/Gain).

Charging payments on a non-budgetary expenditure item is not only an improper disclosure of the embassy’s financial performance but also undermine the integrity of the NAVISION accounting system.

I advised that controls be in built in the system to mitigate the risk of mischarge of expenditure.

81.2 **Payables**

The Statement of financial position reflects payables amounting to Shs.468,735. However the accompanying explanatory note and the statement of outstanding commitments indicated nil balances. Contrary to basic accounting principles, the payables which are current liabilities were instead added to the current assets in the statement of financial position, resulting into a net financial worth of Shs.74,029,868 as opposed to Shs.73,092,398. Management did not provide an explanation for the anomaly.

82.0 **NAIROBI MISSION**

82.1 **Non Tax Revenue**

The Mission collects Non Tax Revenue (NTR) from issuance of Visa stickers and emergency travel documents, and rent from tenants who rent commercial space on Uganda House. The following matters were observed:-

82.2 **Collections from issue of emergency travel documents**

Emergency travel documents are issued to Uganda citizens who have no passports and are travelling outside the Republic of Kenya. The process involves
the applicant filling in the forms giving his/her details. An amount of Kshs.500 is then paid to the cashier before the applicant is interviewed by a responsible officer at the Mission. After the interview, an emergency travel document, in duplicate and serially numbered is typed with the details of the applicant. Passport photographs are attached on both the original and the duplicate, and the former is issued to the applicant while the latter is filed. Review of the process and collections from this source of NTR revealed the following matters:-

82.3 **Utilisation of NTR at source without authority**

Paragraph 339 of the Treasury Accounting Instructions (TAIs), requires that, “all government revenue collectors should bank their revenue collections intact...”. Contrary to this requirement, all revenue collected from issuance of emergency travel documents was utilised at source without authority. The daily collection book that was only introduced on 25th January 2010, showed that a total of KShs.119,950 was realised from this source between this date and 30th June 2010. All the collections were utilised at source without authority, in addition to lacking proper documentation such as requisitions, vouchers and receipts. I did not obtain reasonable assurance that the expenditure was incurred on well intentioned purposes.

82.4 **Book keeping**

It was noted that no revenue cash book is maintained at the Mission for all the NTR collected. Prior to 25th January 2010, there was no record maintained for NTR collected from issue of emergency travel documents. Non maintenance of revenue cash books contravenes the financial management principles and makes it difficult to properly account for the revenue collected.

I have advised the Mission management to strengthen the Procedures for issuance of travel documents to address the shortcomings noted in the collection of revenue from the temporary travel documents. Authority in form of Appropriation in Aid should be obtained to allow spending of any non tax revenue at source.
82.5 **Lack of passport photos on file**

While it is a requirement that a passport size photograph be attached on the duplicate copies of the emergency travel documents, it was established that a number of these documents sampled for the months of December 2009, January and April 2010, lacked photos.

82.6 **Authorised signatories**

While there are three authorised signatories to the emergency travel documents, review of actual signatures on the documents revealed that other staff, including locally based staff sign on behalf of the authorised signatories. This implies that the facility can easily be abused. In other instances, a number of the filed duplicates lacked signatures hence making it difficult to establish whether these were actually issued following the prescribed procedures.

82.7 **Interview of applicants**

The process of issuing travel documents entails interviewing the applicants for security and other immigration requirements. However, it was noted that there is no record to show that such interviews are conducted. There is a high risk that the documents may be issued to people who do not qualify.

Strict control measures should be instituted in the issue of emergency travel documents to avoid risks of issuing them to wrong elements. In addition, the form that is filled should have a provision for endorsement by the interviewer to confirm that the interviews have been conducted by a responsible officer before issuance of the emergency travel document.

82.8 **Management of Uganda House**

(a) **Procurement of the property manager**

The government of Uganda under the Uganda Mission in Nairobi owns a commercial building in the city of Nairobi. To facilitate proper management of
the property, the Mission hired services of a property management firm to manage the building on behalf of the Mission. Review of the management contract details revealed the following:

- The current management firm (M/s Regent Management Limited) was procured through a prequalification process conducted in 2009 in which it was the only pre qualified firm for property management services. It had bided with its predecessor firm, M/s Lloyd Masika Limited which had also succeeded Regent Management Limited in March 2008. During the prequalification exercise, M/s Lloyd Masika Limited was eliminated on three grounds, namely;
  - No certificate of incorporation
  - No tax clearance
  - No evidence of contracts performed.

Based on these facts, it is not clear how M/s Lloyd Masika Limited had been given the management contract that was running up to the time of being eliminated and eventually signing a new contract with Regent Management Limited in November 2009.

The circumstances under which the Management firms are recycled are not clear.

- It was also noted that the current managers do not provide adequate information in their returns to the Mission to enable management of the Mission properly monitor the activities of the firm and the collections from the tenants. The Mission may be losing some revenue in form of undisclosed rental collections.

- It was noted that the billing regime is not consistent with the rent collection system and the VAT payment requirements. While the billing is done quarterly, rent is collected on a monthly basis. As a result, VAT which is tagged to the billing regime is paid in advance against uncollected revenue. This is irregular and measures should be taken to harmonise the billing with
the collection regime so that taxes (VAT) are paid against rent collected and not what is billed that may sometimes not be paid.

- In order to provide services such as garbage collection, power, water and security, tenants are charged an extra amount on top of what is billed for rent. However, the amount charged in aggregate is not adequate to cater for these services. It was also noted that all the tenants do not pay the service charge. As a result, the rent collected is used to cater for payments of these services.

I have advised management to ensure that the tenants are made to pay for the services in question.

(b) Outstanding rent collections

Review of the rent debtors revealed that a total of Kshs.16,883,641 remained uncollected from tenants at the end of June 2010, analysed as shown below:

<table>
<thead>
<tr>
<th></th>
<th>0-30 days</th>
<th>31-60 days</th>
<th>61-90 days</th>
<th>Over 90 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>994,347</td>
<td>0</td>
<td>6,623,557.27</td>
<td>9,265,736.80</td>
<td>16,883,641</td>
</tr>
</tbody>
</table>

Details show that the bulk of the uncollected amount had been outstanding for over 90 days. There seems to be a poor debt collection policy which may lead to difficulties in collecting the old debts.

The detailed aged debtor analysis also shows that some tenants were allowed to clear current months rent without paying for the previous outstanding amounts. Management did not provide any explanation for this anomaly.

I have advised management to institute more stringent debt collection measures to avoid loss of revenue.
(c) **Payments from the Uganda House Account**

It was noted that various payments are made directly from the Uganda house rent account. These include management fees, taxes and cash withdrawals for petty cash by the property managers for which accountability is supposed to be submitted together with the monthly returns to the Mission. The bank statements show unexplained payments from the bank account arising from standing instructions of Ksh.850 almost on a weekly basis. Accountabilities submitted by the property managers do not show what this standing instruction caters for.

It was also noted that such payments are made from the account by the managers as sole signatories without any signatory from the Mission. This is contrary to Government procedures regarding revenue collection accounts. There is a risk that revenue collections may not be fully accounted for by the property managers.

A review of the financial statements revealed that the Mission did not recognise maintenance costs (service charges of Shs.341,903,987) as expenditure in the statement of appropriation account. This has the effect of understating the total expenditure and concealment of the resultant excess expenditure. Besides, all the documentation relating to this expenditure was not availed for audit examination. I was unable to ascertain the purpose for which the expenditure in question was incurred by the Mission.

I have advised the Mission management to designate an officer as a signatory to the account with the property managers. All payments from the account should be fully authorised by the Mission management and documents such as vouchers maintained and the expenditure fully disclosed in the financial statements.

(d) **Management of the property**

The building was last renovated some years back and has of recent deteriorated so much that urgent repairs are required. The City Council of Nairobi has issued
several warnings especially regarding the outdated and non functioning fire fighting equipment. The following defects were noted that had also been identified by a technical team that recommended urgent renovations:

- Outdated electrical and IT Installations
- Warn out and peeled floors
- Deteriorated plumbing system
- Poor partitioning
- Cracks in walls in some areas.
- Lack of smoke detection and moribund fire fighting equipment
- Peeled off wall paints
- Leaking roof non functioning lights

**Pictures showing the status of the building in some sections**

![Cracked roof that needs urgent repairs](image1.png)

![Cracked walls](image2.png)
Leakages through the ceiling

Old PVC tiles that have peeled off the floors

Leaking sink in one of the pantries

Old and broken door shutter
Old and unserviced water hydrants and fire extinguishers

Delay in renovating the building may lead to its closure by the City Council authorities.

I have advised management to liaise with the ministries of Foreign Affairs and that of Finance Planning and Economic Development for the necessary funding for the repairs.

(e) **Delayed procurement for renovation works**

It was noted that although funds were provided for in the 2010/11 budget and partly released for the renovation of the property, the procurement process delayed to commence and at the time of audit in Oct 2010, invitations for bidding had not been sent out. This is likely to delay the whole renovation exercise leading to return of funds to the Consolidated Fund Account, if not utilised by end of the financial year.

I have advised the Accounting Officer to expedite the procurement process to enable the works to be undertaken within the financial year.

82.9 **Maintenance of the Official Residence**

The official residence appears to be in good condition after the recent major repairs of part of the roof. However, the following were observed and require urgent handling.
• **Cracked Compound**  
The paved compound was noted to be heavily cracked, and in need of urgent repairs as shown below:

![Photographs showing cracked compound](image1.png)

• **Old Furniture and Fittings**  
It was noted that the official residence has very old curtain and curtain binders, while some of the beds in the guest rooms are broken as shown in the photographs below:

![Torn curtain blinders, sewn by hand in some areas.](image2.png)  
![Broken bed in one of the guest rooms](image3.png)
I have advised management to mobilise resources to address the above matters.

82.10 **Over Expenditure on Budget Item**

The Mission incurred over expenditure on the following budget line:-

<table>
<thead>
<tr>
<th>Details</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>866,628,329</td>
<td>881,076,467</td>
<td>(14,448,138)</td>
</tr>
</tbody>
</table>

There was no evidence to show that the Mission obtained authority to incur the above over expenditure.

I have advised management to always ensure that appropriate authority is sought before incurring such over expenditure.

82.11 **Lack of a Procurement Plan**

Procurement regulations require all Procurement and Disposal Entities (PDEs) to prepare annual procurement plans reflecting the procurement requirements of the PDEs. It was noted however that the Mission operated without a procurement plan for the financial year 2009/10 contrary to the requirements under the PPDA Regulations.

I have advised the Mission to ensure that procurement plans are always made in time and followed.

82.12 **Non existence of Salary Structure for Local Staff**

The Mission recruited 13 local staff who are paid monthly salaries. However, it was noted that the Mission does not have a clearly defined structure for this category of staff and it is not clear how their salaries are set. By the time of audit inspection in Oct 2010, the staff were being paid their monthly salaries without a properly prepared payroll for which copies should be kept for future reference. This is irregular and may lead to misunderstandings between Management and staff.
The Accounting Officer explained that the mission is in the process of developing a comprehensive salary structure for the local staff.

I have advised the Accounting Officer to expedite the process and have the salary structure approved before it is implemented.

82.13 **Security at the Mission (Contract for security services)**

The Mission secured services of a local firm, M/s Radar Ltd to provide security at the Mission Chancery, Official residence and the Uganda House at a monthly fee of Kshs.213,440 for 8 security guards and Kshs.11,600 for security alarms. The amount for security guards was later increased to Kshs.266,800 due to increased security alerts. The following matters were observed:

- The security firm services were not acquired through the recommended procurement procedures required by the PPDA Regulations. The pre-qualified list for security firms shows that five firms are listed to provide security services. No details were available on the selection criteria that was used to identify M/s Radar Ltd.

- The contract signed between the Mission and the firm is silent on the monthly fees and the services to be provided. The schedules referred to in respect of the services were not attached to the main contract and were not availed for audit. This can lead to challenges in enforcement of the contract.

I have advised management to always adhere to the procurement regulations and guidelines. Additionally, the contract should be amended to include the identified missing details.

83.0 **DAR-ES-SALAAM MISSION**

83.1 **Excess Expenditure**

The mission spent Shs.923,958,422 during the year under review against shs.787,548,000 appropriated by Parliament as indicated in the Approved
Estimates of income and expenditure. The approved budget was however reported in the financial statements as Shs.1,644,610,588 hence concealing an excess expenditure of Shs.136,410,422.

Management was advised to strengthen controls over budgetary expenditure.

83.2 **Inconsistencies in Reported Balances**

Material inconsistencies were noted in balances reported in the various financial statements as indicated in the table below. Consequently, I was not able to confirm the accuracy of these balances reflected in the financial statements.

<table>
<thead>
<tr>
<th></th>
<th>Cash flow Statement</th>
<th>Statement of Financial Performance</th>
<th>Statement of Appropriation Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>337,237,073</td>
<td>329,109,708</td>
<td>337,237,073</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>508,806,145</td>
<td>515,995,909</td>
<td>556,024,107</td>
</tr>
<tr>
<td>NTR</td>
<td>37,249,794</td>
<td>75,439,648</td>
<td>37,249,794</td>
</tr>
</tbody>
</table>

Management was advised to investigate the inconsistencies and make the necessary adjustments.

84.0 **ABUJA MISSION**

84.1 **Financial Statements**

(a) **Variance between the statement of financial performance and the notes to the financial statements**

The amounts attributed to other Revenue and foreign exchange gains in the statement of financial performance do not tally with the balances reported in the notes to the financial statements. The differences are as indicated in the table below. Besides, the exchange gain earned by the Embassy was not reported in the statement of financial performance. This resulted into an understatement of the surplus for the period.
In addition, whereas the surplus/deficit for the year was disclosed as Shs.635,075,989 in the statement of financial performance, that reported in the statement of changes in equity was Shs.632,967,085. The discrepancy of Shs.2,108,907 variance was not explained.

(b) **Statement of Appropriation Accounts**

Total expenditures reported in the two appropriation accounts differ by Shs.114,901,568 as shown in the table below:

<table>
<thead>
<tr>
<th>Appropriation Account</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on service Voted</td>
<td>1,343,444,733</td>
</tr>
<tr>
<td>Based on Nature</td>
<td>1,228,543,165</td>
</tr>
</tbody>
</table>

The cause of the difference was not explained.

I advised the Accounting Officer to investigate the inconsistencies and take appropriate action.

84.2 **Furniture**

According to Foreign Service Standing Orders, public officers serving abroad in Foreign Service are entitled to rent-free furnished accommodation. During the year 2008/2009 the mission had an Administrative Attaché and a Head of Mission posted. Subsequently, Shs.112,673,655 was spent on furnishing and equipping their rented residences.

At the time of audit inspection (November 2010), the furniture and equipment procured which was hardly a year old had been damaged. In such a circumstance, it is evident that the furniture and equipment delivered was of substandard quality.
I have recommended that the matter be investigated and appropriate action taken against the culprits.

84.3 **Uganda House Project**

The Mission negotiated a consultancy contract worth Shs.1,133,134,974 for the design of the planned construction of Uganda House building. By the time of inspection US$.470,153.71 (Shs.900,000,000) had been disbursed to the High Commission.

The consultancy had taken unduly long to enable commencement of actual construction. Although the Consultancy contract was signed about November 2009, and some amount advanced to the contractor, at the time of audit, architectural/engineering drawings were yet to be submitted to the Federal Authorities for approval.

According to available information, the deadline for the moratorium set by the Nigerian authorities for the development of the plot expired on December 31st 2009. Thus, unless the process is expedited and supported with intensive diplomatic negotiations, the High Commission is at risk of losing not only the title to the plot but also the funds so far incurred for consultancy.

The Accounting Officer was advised to ensure that implementation of the contract is closely supervised and monitored to ensure that the expected deliverables are achieved on time.

84.4 **NSSF Contribution**

During the period under review, the High Commission was allocated Shs.30,000,000 in respect of Social Security Contributions for locally recruited staff. It was however noted that the Commission did not effect any payment in respect of employee social security. Instead the money was diverted to finance other activities.
Accordingly, the High Commission is at risk of undesirable consequences of litigation including diplomatic embarrassment, because of going against the Federal Government labour laws.

The Accounting Officer promised to start remitting Social Security funds effective 2010/11 financial year.

84.5 **Health Insurance**

Chapter 3 Section F-a Foreign Service Standing Orders on medical treatment requires that officers serving with missions together with their spouses and children be registered with a health insurance service provider. The mission spent US $7,166.65 in respect of expenses incurred on treatment in disregard of the requirement. It was not explained why the mission dispensed with the health insurance scheme.

The Accounting Officer was advised to ensure that medical insurance for staff was complied with to mitigate the risk of incurring high medical costs.

84.6 **Visa Fees Collections**

US $62,844.23 was collected as Visa Fees during the year under audit. A reconciliation of the collections with transfers indicates that only US $57,715.43 was remitted to the UCF. According to explanations by the Accounting Officer, the balance of US $5,128.80 was to be remitted after reconciliations were concluded.

I advised the Accounting Officer to ensure that the reconciliation is expedited and the amounts remitted to the UCF.

84.7 **VAT Refunds**

According to Nigerian Federal Tax laws, Diplomatic corps’ are exempted from paying VAT. During audit inspection, it was noted that the commission was not making any claim for VAT refund on goods and services procured. In the Uganda
House Project consultancy alone the mission was charged a 5 per cent VAT exceeding Shs.100,000,000. This amount is claimable as tax refunds from the Nigerian tax authorities.

The Accounting Officer promised to follow up the matter with the Nigerian Federal Government Ministry responsible for foreign affairs. The outcome is still awaited.

84.8 **Motor Vehicles**

According to available information both the representational and utility vehicles (BMW Station Wagon and Peugeot Saloon) did not have log books and are not insured. The Mission did not have the original purchase documents for the two vehicles which made it difficult to start the process of registration. The number plates being used on the vehicles were old number plates picked from the stores. I advised the Accounting Officer to take up the matter with the Ministry of Foreign Affairs to ensure that all the relevant documents in custody of his predecessor are availed to ease the registration exercise.

85.0 **BRUSSELS MISSION**

85.1 **Medical Expenses**

The Embassy paid Euros 8,601.96 to a Health Insurance Company to provide medical facilities to Embassy staff. The Accounting Officer explained that the practice is for officers to pay for their consultation fees, medical services and medicines and seek for refunds from the Embassy. The original prescription documents are then sent to the insurance company for refund to the Embassy. The insurance refunds only 80% of the medical bills.

However, examination revealed that an amount of Euros 12,750.23 in refunds to staff in respect of such medical expenses had not been refunded to the Embassy by the Insurance Company.
I have advised the Accounting Officer to pursue the recovery of the amounts from the Insurance Company.

85.2 **Remittance of Unspent Balances to UCF**

On June 30\textsuperscript{th}, 2010, the embassy closed business with a net cash and cash equivalents of Shs.77,559,830 comprising of Shs.77,258,814 on the Expenditure Accounts and cash at hand of Shs.301,016. Although the Public Finance and Accountability Act 2003 requires unspent balances at the end of the financial year to be returned to the Uganda Consolidated Fund account, these balances were not remitted to the Account.

The Accounting Officer explained that the unspent balances were for the ongoing demolition works at the official residence implying that the funds were already committed.

I advised the Accounting Officer to remit the balances to the Consolidated Fund as is required by regulations.

85.3 **Staff Appraisals**

A review of both the home based and local staff personal files at the Embassy revealed that performance appraisals were not undertaken at the embassy during the year as required by the Public Service regulations. Without a functioning staff appraisal system, management is unable to assess the performance of staff and identify their development needs. It may also not be possible to assess contribution of staff to the achievement of the objectives set out in the Mission Charter.

The Accounting Officer explained that the embassy undertakes staff appraisals of all staff but does not keep copies of appraisal forms on personal files. However, evidence to support this assertion was not provided.

I advised management to ensure that performance appraisal is regularly undertaken and appraisal forms filed in individual personal files at the Embassy.
85.4 **Mission Charter**

It was noted that the mission charter which was issued to the Head of the Mission in 2006 on his appointment, expired in 2008 and to-date no efforts have been made by the Ministry of Foreign Affairs to have the Charter renewed to provide new targets to the embassy. For instance, the Mission Charter provides for several objectives to be achieved by the year 2008. This renders the Charter irrelevant for the year under review. In absence of a revised Charter the Mission may not cope with the new challenges and current GoU policies.

I advised management to liaise with the Ministry of Foreign Affairs to expedite the process of reviewing and developing a revised charter for the Embassy. The Accounting Officer explained that the mission has prepared a draft Mission Charter which will be forwarded to the Ministry of Foreign Affairs for consultation.

85.5 **Embassy Property**

The Embassy owns three properties in prime areas within Brussels. These include the Chancery, the Villa and the official residence. However, physical inspection of the properties revealed the following:

- The Chancery building is located at Avenue de Tervuren 317, one of the prime streets within Brussels. It was noted that although renovation/repair works were done on the building which included replacement of some external windows and doors, repair of the roof to stop leakages and some paintings, the condition of the building especially the basement has continued to be in a very bad state.

  For instance some rooms in the basement are inaccessible and may collapse anytime. The doors and windows to the basement are very old and rusty and
are either permanently closed or permanently open leading to loss of heat and hence high heating costs especially during winter season.

The plumbing and electric system of the entire building frequently breaks down leading to high costs of maintenance. The wall paper has also peeled off. Unless the entire building is renovated the mission stands a risk of the building being condemned by the Brussels authorities like it was with the official residence.

- The villa is currently occupied by the Head of Mission and is also situated in a prime residential area within Brussels. Although some minimum repairs and painting have been done, the building still requires repairs to save it from further deterioration. The entire plumbing and the heating system require urgent replacement. The entire ground floor also requires repairs.

- The official residence used to be located at close Des Lauries 35, Woluwe Street Pierre yet another very prime area in Brussels. By the time of this audit inspection, the structure had been demolished and the firm contracted to do the work was in the process of removing the debris.

The architectural plans to construct two new structures were in the initial stage of the approval process subject to minor improvements to be made on the plans by the architect. However, as stated in my previous report, the Embassy stands to lose the site/plot if funds are not made available on time to get the new structures constructed within a specified period of time as required by the Belgium laws.

Management explained that the Embassy provided for renovation of the chancery, the villa and construction of the official residence in its budget for the financial year 2009/10 but the budget provision was not approved.
• The furniture at both the Chancery and at the Villa where the Head of Mission resides is old and requires replacement. Curtains/blinder for a number of shutters at the Chancery are either lacking or very old. This does not portray a good image for the Embassy and the Country at large.

Management is advised to continue liaising with Ministries of Finance and Foreign Affairs for resources needed to renovate these properties. The approval process of the architectural plans for the new official residence should also be expedited.

86.0 **ROME MISSION**

86.1 **Funds Unaccounted For**

(a)  **Unbanked Non Tax Revenue**

The Embassy collects Non Tax Revenue (NTR) mainly from visa fees, renewal of passports and certification of documents. Records at the Embassy show that a total of Euros 25,374.00 was collected for the period 1\textsuperscript{st} July 2009 to 31\textsuperscript{st} July 2010. However, out of the total collections, only Euros 22,918.00 was banked. The balance of Euros 2,456 was neither banked nor accounted for. This is contrary to the Treasury Accounting Instructions which require all revenue collections to be banked intact.

I advised the Accounting Officer to have the amounts properly accounted for or recovered from those responsible.

(b)  **Cash refunds unaccounted for**

A sum of Euros 700.00 was advanced a number of staff in two instalments (Euros 200.00 on 24th May 2010 and Euros 500.00 on 28th May 2010). The amount was later refunded in cash in June 2010 but was not receipted. The entry made in the petty cash book to recognise its receipt was later crossed out and the money remains unaccounted for.
(c) **Petty cash not accounted for**

To facilitate the activities of the Embassy, given the limitations of honouring cheque payments in Rome, the embassy operates a petty cash system where most of the payments are effected in cash. A review of cash transactions revealed that at the end of every month, there were unspent balances that were being properly carried forward to the following months as opening balances. However, a sum of Euros 4,484.54 unspent at the end of June 2010 could not be certified by the Accounting Officer because the Accounts Assistant responsible for management of petty cash could not produce the physical cash. The amount has since remained unaccounted for by the responsible person.

The Accounting Officer explained that the shortage in bankings and the amounts unaccounted for funds were occasioned by the Accounts Assistant who never banked the money she collected in the absence of the Accounting Officer and failed to account for the refunded money together with the balance on imprest. He further stated that the Accounts Assistant had been suspended and an option of dismissal was being considered. He promised to recover the funds from her benefits.

86.2 **Board of Survey**

Treasury Accounting Instructions require that the Accounting Officer appoints a board of survey to report on assets and cash balances at the year end. Although the Accounting Officer complied with the requirement and appointed members to the board of survey, the appointed members did not carry out the task. As a result the balances of assets and cash remained unconfirmed.

The Accounting Officer explained that although the team was appointed to carry out the exercise, there was no cooperation from the accounts assistant, which made it hard for the team to proceed with the exercise.
86.3 **Lack of Capital Budget**

It was noted that the budgetary provisions for the Embassy do not include capital expenditure. As a result, there is lack of basic items such as furniture and fittings at the official residence of the Ambassador and other staff residences. The newly occupied official residence lacks curtains and other basic necessities of capital nature. Some of the furniture and curtains used in the residences are in poor condition and belong to the landlords. There are no lockable cabinets at the Chancery to secure official documents.

The Accounting Officer explained that although they have always submitted a capital budget, they have not succeeded in accessing the funds due to limitations in the budget ceilings.

I have advised the Accounting Officer to liaise with Ministry of Foreign Affairs Ministry of Finance in an effort to obtain funds for capital development to enable the Embassy acquire the basic requirement of capital nature.

86.4 **Lack of Salary Structure for Local Based Staff**

A number of staff were recruited locally mainly in the support functions at the Embassy. It was however noted that there is no clear salary structure for this category of staff. There are no defined annual increments of salary. This is irregular and contrary to the government staff standing orders.

Although management has taken a positive step to review the salaries of this category of staff, records show that the review is focusing on individuals instead of a defined salary structure into which the individuals should fit.

There was also no compliance with deductions and payment of social security benefits for some of the staff employed under this category. This is likely to lead to litigations and fines to the Embassy if not handled urgently.
I have advised the Accounting Officer to put in place a salary structure that complies with the Italian laws to avoid future litigation and related costs.

86.5 **Subvention Funding from MAAIF**

The Embassy is also recognised as permanent Mission to the UN Agricultural Agencies (FAO, WFP and IFAD) for which an Attaché was seconded by Ministry of Agriculture Animal Industry and Fisheries. Funds in form of subventions are also released by the ministry to the Embassy to support the activities related to these additional responsibilities. However, the following matters were noted:

- Ordinarily it would be the Embassy to be accountable for the funds since it receives the money in form of subventions. However, the funds were treated as advances by the Attaché and the accountabilities submitted back to Ministry of Agriculture.

- The accountability documents sent to the Ministry were not accompanied by a summary of activities performed, yet the documents are in Italian language without translations. This made it difficult to examine them and confirm that the funds were utilised for the intended purposes.

- The report on the Mission Charter for the period January to June 2010 highlighted many achievements for the Embassy in its representation role at UN organisations. However, the corresponding activities leading to these achievements were not reported in the financial statements of the Embassy. The MAAIF reports only show subventions to the Embassy.

In effect, the detailed expenditure on which the subventions were utilised was not reported in either of the Financial Statements of the MAAIF or the Embassy.

The Accounting Officer explained that the relationship between the Embassy and the Office of the Agricultural Attaché is not clear in terms of expenditure, activities, accountability and supervision.
I advised that the key documents relating to the accountabilities for the funds be translated to ease their auditability and the activities of the Office of the Agricultural Attaché be reported in the Embassy’s records and financial statements.

87.0 JUBA MISSION

87.1 Financial Statements

(a) Cash Flow Statement
Total receipts from operating revenues were erroneously reported as Shs.1,245,445,670 instead of Shs.2,978,445,690 thus understating net increase in cash and cash equivalents by Shs.1,733,000,000. Besides, cash at year end was reported as a NIL balance in the statement of reconciliation of movement of cash during the year.

(b) Statement of Finance Position
Although the Consulate reported total assets of Shs.1,595,785,701 and NIL liabilities, Net Assets and Net Financial worth were reported with NIL balances. A NIL balance was also reported as closing Net Financial worth in the Statement of Changes in Equity as a result of not disclosing Net worth brought forward of Shs.13,793,060 and surplus.

(c) Inconsistencies between Notes to Accounts and Financial Statements
Material inconsistencies were noted between balances reported in Notes to Accounts and Key Financial Statements as shown in Table below:

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>Statement of Financial Performance</th>
<th>Statement of Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Gains/Loss</td>
<td>121,380,026</td>
<td>-</td>
<td>121,380,026</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>137,214,299</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumption of property</td>
<td>-</td>
<td>134,240,986</td>
<td>137,214,299</td>
</tr>
</tbody>
</table>
87.2 **Cash Withdrawals Unaccounted For**

According to the Bank Statements, the Mission made large cash withdrawals totalling US$442,500 on Cheque number 00114 (US$117,500) and Cheque Number 000120 (US$325,000).

Although US$325,000 was refunded, I was not provided with a justifiable explanation for making such large cash withdrawals. Besides, US$117,500 remained unaccounted for by the time of inspection.

In absence of a justifiable explanation and accountability documents, I was unable to confirm that the funds were properly utilized.

87.3 **Inconsistency of Bank Information**

It was noted that the Bank certificate and bank statement for the Mission operations for Bank Account No. 5500152017 attached to the draft final accounts showed a closing balance of USD $844,460.94 while the Bank Statement showed a balance of USD $519,456.94 reflecting a variation of USD $325,004 (Shs.731,259,000).

Furthermore, a funds transfer of $ 99,809.07 (Shs. 224,570,408=) on 30th April 2010 to the Consulate Account Number 5500152017 by the Accountant General was reversed from the account on 1st July 2010 and the reversal by the Bank was not satisfactorily explained.

Management explained that the errors originated from the Bank and were corrected later.

87.4 **Unexplained Deposit**

A deposit of US$144,500 was made onto the Consulate Account number 5500152947 on 30th June 2010 from a firm/company without formal business
transaction with the Consulate. In absence of adequate supporting documentation, I was not able to establish the nature and purpose of the transaction. Accordingly, the deposit was rendered doubtful.

The Accounting Officer was advised to ensure that all transactions involving the Mission with external parties bear their supporting documentation to facilitate verification as required by Law.

87.5 **Staff Appraisal**

It is a requirement that employees of government are appraised periodically by their employers to assess their performance. However, interviews with the staff and a review of their respective personal files revealed that;

- Some staff members had their terms of employment not clearly spelt out in terms of whether they were on permanent or contract terms.
- A number of staff contracts had expired
- Participatory staff appraisals were not being done for all the confirmed local staff.

There is a risk that staff weaknesses may not be addressed on time to enable the Embassy achieve its objectives.

Management was advised to ensure that staff performance appraisals are conducted in accordance with issued guidelines from Ministry of Public Service.

87.6 **Foreign Exchange Loss Unaccounted for**

The exchange loss reported in the financial statements of Shs.121,380,921 was not consistent with the notes to the accounts which reflect it at Shs.42,210,869 (US$ 20,312.47) thus causing an unexplained variance of Shs.75,170,052.
87.7 **Fixed Assets Register and Engravement**

The PFAA requires that all assets of government should be engraved with the organization’s marks for ease of identification.

A sample of fixed assets inspected at the Chancery revealed that the consulate was not maintaining a comprehensive fixed asset register and the fixed assets were not engraved with the Consulate’s distinctive marks. In absence of a register and distinctive identification, the Consulate risks its assets getting lost without being traced.

Management explained that the Consulate has now a comprehensive fixed asset register for all assets procured.

87.8 **Goods Not Taken on Charge**

The Mission procured various consumable and non consumable items. However, there was no system in place to ensure that procured items were received; independently verified and taken on charge in stores before issuance. Purchases of stationery, equipment and furniture for office and staff residences amounting to Shs.134,240,986 were not supported by Goods Received Note as evidence of official receipt of the items. There is a risk of paying for items not delivered.

Management explained that the Consulate has now put in pace a transparent system for receiving and issuance of stores.

87.9 **Non Contribution of Social Security for non Pensionable Employees**

The Foreign Service standing orders chapter 3(6) requires that the terms and condition of service of locally recruited staff at a mission should to follow the national labour laws and practices for comparable personnel in the country of accreditation. At the missions such contributions are spelt out by the national laws. However, a review of records relating to employees’ costs revealed that the
Mission was not making any contributions in respect of social security for locally recruited staff.

The Accounting Officer indicated that Management was in a process of harmonizing the employment contracts for locally recruited staff with the National Laws relating to social contribution.

Management was advised to ensure that the employment contracts for locally recruited staff comply with the requirement of the National laws relating to social contributions.

87.10 **Non Tax Revenue**

The guidelines for Non Tax Revenue provide that NTR collected should be banked promptly and remitted to the Consolidated Fund. However, it was observed that the Mission was not banking NTR promptly. For example US$144,500 collected as NTR during the year under review was not banked monthly in the pattern of receipt.

I advised the Accounting Officer to ensure that NTR collected is banked promptly as required by the Regulations

87.11 **Juba Market Project**

(a) **Funds Lying Unutilised**

Government undertook to build a market in Juba at plot no. 252 block No. A111, Munuki market area, southern Sudan worth Us $ 4.5 million and accordingly US$904,568.57 had been released by November 2009.

However, out of the total release of US$904,568.57, US$844,460.94 remained unutilized at financial year end. Funds appropriated by Parliament are intended to finance priorities identified through the National budget process. Failure to implement prioritised activities imply that funds allocated to those activities remain idle hence denying citizens the intended services.
Management attributed this to delays in the procurement process by the Ministry of Foreign Affairs which was tasked to handle the procurement on the Consulate’s behalf.

Management was advised to request Ministry of Foreign Affairs to speed up the procurement process to allow achievement of project objectives.

(b) **Payment of Night Allowance to Ministry of Works Staff**
According to documents available, the Consulate paid shs.34,330,000 to Ministry of Works staff allegedly for designing and documenting the Juba Market. It was noted that the work was carried out at their offices in Uganda therefore it did not require them to travel to claim night allowances. The expenditure appears to be irregular.

(c) **Scale of operations of Juba Consulate in Southern Sudan**
According to the Ministry of Foreign Affairs grading, Juba Consulate is graded as a small Mission with one plus two staff establishment. Of the three posts, two have been filled leaving one vacant. However, given the level of business and Consular activity between Uganda and Southern Sudan, this low level of Consulate staffing and inadequate funding may not allow the Consulate to operate effectively.

The Ministry of Foreign affairs should consider up grading the Consulate to a level of activities under its jurisdiction.

88.0 **KINSHASHA MISSION**

88.1 **Excess Expenditure**

The Mission incurred total expenditure of Shs.1,300,908,190 during the year under review against Shs.983,798,000 appropriated by parliament leading to
excess expenditure of shs.317,110,190. Excess expenditure indicates weaknesses in controls over budgetary expenditure.

Management was advised to address weaknesses in the expenditure control system and also have the excess expenditure regularised in accordance with the Public Finance and Accountability Act, 2003.

88.2 **Lack of Board of Survey Report**

The Statement of financial position reflects a cash and cash equivalent balance of Shs.110,129,443 which Shs.54,664,260 represents cash at hand (imprest account) at year end.

In absence of the Board of Survey report on cash, I was unable to confirm the accuracy of the cash and cash equivalent balance reported in the financial statements.

89.0 **GENEVA MISSION**

89.1 **Statement of Financial Performance**

The Statement of Financial Performance and the trial balance reflect expenditure on goods and services amounting to Shs.892,761,691. However, the accompanying Note 10 reflected expenditure on goods and services of Shs.933,428,697 causing a discrepancy of Shs.40,667,006 which was not explained.

89.2 **Lack of Mission Charter**

It is a practice for the Minister of Foreign Affairs to issue a mission charter to each head of mission on deployment. The mission charter provides the mandate, objectives and scope of responsibility for each mission/Embassy for a specific period of time.
A review of the mission charter for the Permanent Mission of the Republic of Uganda to the United Nations and Other International Organisations (Geneva) revealed that the charter was issued to the former head of mission on his deployment to the Mission on 23rd January 2006. Since then no revisions had been undertaken yet there had been new deployments at the mission.

Further, I was not availed with progress reports on the implementation of the Mission charter. During interaction with staff and Head of Mission, it was evident that the relationship between staff is not harmonious. For instance, the shortcomings identified in the mission charter implementation were being blamed on each other.

Management explained that the mission, in consultation with the Ministry of Foreign Affairs was in the process of revising the charter and that the mission in consultation with the Ministry was working to improve the relationship between staff.

Management was advised to introduce a performance monitoring and reporting system to monitor the progress of the mission charter implementation.

89.3 **Missing Personal File**

The personal file for the First Secretary was not produced for review. It was explained that the file was being kept by the officer himself. By the time of inspection the officer had allegedly travelled to United States for official duties.

The Accounting Officer explained that the officer was requested to release his file to the responsible officer at the mission for safe custody.

I advised that all personal files at the Mission should be kept centrally by a responsible officer at all times.
89.4 **Nugatory Expenditure**

A Foreign Service Officer at the Embassy was paid CHF 2,412.31 in respect of per diem and air ticket to enable him travel to Kampala over indiscipline. Facts of the case and the results of the disciplinary (committee) consultations were however not disclosed.

I was not able to establish whether the refund to the officer was justified.

90.0 **PRETORIA MISSION**

90.1 **Statement of Changes in Equity**

The comparative balance of net financial worth was restated at Shs.460,791,078, in the financial year under review. However, the restated balance was not supported by details of the adjustment made to the original audited balance. In absence of supporting documentation I was not able to verify the validity and accuracy of the adjustments of the net worth by Shs.41,179,551.

It was also noted that restated net worth brought forward was reduced by Shs.76,092,159 in the statement of changes in equity. This adjustment was not explained at the time of audit.

90.2 **Statement of Financial Position**

Included in the statement of financial position is a payables balance of Shs.105,544,918. However it was noted that the balance was not reflected in both the statement of outstanding commitment and Note 26 accompanying the financial statements. Besides, the balance was not supported by a schedule. Accordingly, I was unable to confirm occurrence, completeness and accuracy of this amount.
90.3 **Lack of Accounts Staff**

It was noted that the High Commission lacked an accounts staff to assist the accounting officer with the accounting work including book keeping at the station.

In absence of accounts staff, the High Commission risked committing errors in the books of accounts that could go undetected hence leading to loss of public funds.

Management was advised to liaise with the Accountant General and the Ministry of foreign Affairs to have accounts staff deployed accordingly.

90.4 **Remittance of Unspent Balances to Treasury**

The financial statements reflect a cash balance brought forward of Shs.419,791,526. The Public Finance and Accountability Act require unspent balances to be returned to the Consolidated Fund. However, contrary to the law, the balance was not remitted to the Uganda Consolidated Fund.

The Accounting Officer was advised to have the balances remitted to UCF.

91.0 **KIGALI MISSION**

91.1 **Excess expenditure**

A review of the Statement of Appropriation Account (Based on services voted by Parliament) revealed that Shs.1,492,434,575 was incurred by the Embassy against Shs.1,240,288,000 appropriated by Parliament leading to excess expenditure of Shs.252,146,575. Excess expenditure is an indication of weaknesses in the controls over budgetary expenditure.

Management was advised to strengthen controls over the management of the budget and have the excess expenditure regularized in accordance with the regulations.
91.2 **Variance in Reported Total Expenditure**

It was noted that total expenditure in the Statement of Appropriation Account (Based on services voted by Parliament) was shown at Shs.1,492,434,575. However, total expenditure in the Statement of Appropriation Account (Based on nature of expenditure voted by Parliament) was reflected at Shs.1,469,810,271, causing a variance of Shs.22,624,304 which was not explained.

The Accounting Officer was advised to ensure that balances are properly reconciled and that all the financial statements are balanced and they in agreement with the notes and memoranda statements.

91.3 **Medical Treatment of Mission Staff Franks 1,280,529**

The Foreign Service Standing Orders requires that Foreign Officers together with their spouses and children be registered with a doctor or dentist abroad for medical treatment. Accordingly, the Embassy paid a sum of Franks 4,828,650 to AAR Health Services as medical cover for Embassy staff.

However, despite the medical cover provided to staff, they in addition made payments to a tune of Franks 1,280,529 to settle individual medical bills and refund to individuals in respect of medical expenses incurred. This expenditure amounts to double payment.

I advised the Accounting Officer to have the amounts recovered.

91.4 **Remittance of Unspent Balances**

The Public Finance and Accountability Act 2003, require that balances unutilized at the end of the financial year be returned to the Uganda Consolidated Fund. However, during the year the cash balance of Shs.93,846,273 brought forward from the previous year was not returned to Treasury for onward transmission to the Consolidated Fund.
I advised the Accounting Officer to remit the funds to Treasury as required by law.

92.0 MOSCOW MISSION

92.1 Misstatement of Financial Statement Balances

The expenditure on goods and services was stated at Shs.1,053,438,398 in the statement of financial performance as opposed to Shs.1,144,722,603 reported in Note 10 accompanying the financial statements leading to an understatement of the balance by Shs.91,284,205 and an overstatement of the net surplus by the same amount.

Further, it was noted that expenditure against four expenditure items exceeded the approved amounts by Shs.176,947,585 as shown below;

<table>
<thead>
<tr>
<th>Item</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications</td>
<td>37,304,184</td>
<td>102,015,623</td>
<td>64,711,439</td>
</tr>
<tr>
<td>Utility and property expenses</td>
<td>712,552,360</td>
<td>717,887,594</td>
<td>5,329,234</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>32,000,000</td>
<td>75,562,426</td>
<td>43,562,426</td>
</tr>
<tr>
<td>Maintenance</td>
<td>23,000,000</td>
<td>86,344,486</td>
<td>63,344,486</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176,947,585</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The over expenditure was not supported with relevant authority.

Management was advised to spend within the approved budget. Where additional resources are needed, virements/reallocations or supplementary funding should be sought in accordance with Regulations.
93.0  **BERLIN MISSION**

93.1  **Over Expenditure on Employee Costs**

It was noted that during the year under review, the Mission incurred over expenditure on the following budget line:-

<table>
<thead>
<tr>
<th>Details</th>
<th>Budget (shs)</th>
<th>Actual (shs)</th>
<th>Variance (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>1,204,247,710</td>
<td>1,300,882,194</td>
<td>(96,634,484)</td>
</tr>
</tbody>
</table>

There is no evidence to show that management obtained authority to incur the over expenditure as is required by the Public Finance and Accountability Regulations.

In his response, the accounting officer explained that the Mission in its budget proposals for 2009/2010 requested for shs.1,153,586,346 under Employee costs, but only shs.800,000,000 was approved under this item hence resulting into a deficit of shs.353,586,346 on employees’ allowances, salaries, social security and medical expenses.

I have advised management to always ensure that they adhere to the approved budgets. Where additional resources are needed, virements should be sought in accordance with the recommended procedures.

93.2  **Non-Tax Revenue (NTR) Collections**

NTR returns for the period under review revealed that the mission collected a total of Euros.73,360. The collections were reportedly transferred to the consolidated fund account as per the following details:-

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount transferred (€)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2009</td>
<td>5,778.78</td>
<td>Transfer of Balance B/f</td>
</tr>
<tr>
<td>Oct 2009</td>
<td>19,000.24</td>
<td></td>
</tr>
<tr>
<td>March 2010</td>
<td>27,932.43</td>
<td></td>
</tr>
<tr>
<td>June 2010</td>
<td>20,600.56</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73,312.01</strong></td>
<td></td>
</tr>
</tbody>
</table>
It was however noted that there were no acknowledgment receipts from Treasury to confirm that the transfers were actually received on the consolidated fund account.

I advised management to always ensure that they obtain the acknowledgement receipts for all remittances to Treasury.

93.3 **Year End Unutilized Cash Balances**

It is a requirement that any unutilized cash balances at the end of the financial year should be returned to treasury. It was noted that the Mission had a total unutilized cash balance of Shs.180,753,539 on its expenditure accounts at the beginning of the year under review, which were not returned to the UCF.

Additionally, at the end of the year under review, the Mission had on its operational account an amount of Euros.65,410.16. However, instead of having it returned to treasury, several year end payments were hastily made in an effort to avoid the requirement in question. The payments made included prepayments for rent for the staff houses and the chancery for the period July 2010 to October 2010. However, such payments had not been budgeted for during the year under review and the Mission has also budgeted for them in the 2010/11 financial year although they are already paid.

The Accounting Officer attributed this anomaly to the fact that funds for use at the beginning of a given financial year always take some time to be released and yet the mission has to continue with its operations.

I have advised management to ensure full adherence with the Public Finance and Accountability Act.
93.4 **Fixed Assets Management**

It was noted that although the mission maintains a fixed assets register to record all its fixed assets, the register does not include all the required asset details. For example the following asset details are not recorded:-

- Date of purchase
- Supplier
- Location of the asset
- Unique identification number
- Cost/value of the asset

This weakens controls over the assets owned by the mission.

The Accounting Officer has promised to have the above asset details incorporated in the asset register henceforth.

93.5 **Stores Management**

Weaknesses were observed in the stores management function. There are no store ledgers being maintained to the extent that it is not possible to show balances of the various store items at any point in time.

It was also noted that there are no periodic checks of the store items to confirm whether all stored items are properly being maintained. This implies that any errors made by the store keeper may not be easily detected and corrected.

I have advised management to have a proper store ledger in place to record all receipts, issues and running balances of all store items.

93.6 **Staffing**

(a) **Performance appraisals**

It was noted that the mission did not undertake performance appraisals for all staff during the year under review as required by regulations. This implies that
management was not able to assess their performance in order to identify any existing capacity gaps.

I have advised management to ensure that performance appraisals are undertaken for both the local staff and the Foreign Serving Officers at the Mission.

In his response, the accounting officer explained that this had been a problem especially for local staff but would now be strictly enforced.

(b) **Local staff recruitment**

According to the operational guidelines issued by the Ministry of Foreign Affairs, the recruitment of all local staff by the missions should be approved by Ministry of Foreign Affairs.

However, for all the staff files for local staff that were examined, there was no evidence that the PS was involved/informed of the recruitment process. This implies that the Ministry did not give the requisite guidance regarding the recruitment exercise and staffing levels.

I have advised management to ensure that they adhere to the guideline in future.

Management regretted the anomaly and promised to ensure that retrospective permission is sought for those who were recruited without adhering to the guideline.

(c) **Unqualified staff**

It was noted that the following staff were found to be holding positions for which they appear not to possess the requisite academic qualifications:-
<table>
<thead>
<tr>
<th>Name of staff</th>
<th>Current post held</th>
<th>Academic qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kiwanuka Albert</td>
<td>Receptionist/Office Assistant</td>
<td>Agricultural mechanization technician</td>
</tr>
<tr>
<td>Hilda Karashani</td>
<td>Economic Assistant</td>
<td>Degree in Business Admin majoring in Tourism + certificate in catering</td>
</tr>
<tr>
<td>Ranjith De Alwis</td>
<td>Financial Assistant/accountant</td>
<td>Education background up to A-Level with Physics, Math &amp; Chemistry</td>
</tr>
</tbody>
</table>

This leads to inefficiencies in staff performance.

The Accounting Officer explained that the unqualified local staff mentioned were taken on board when the Mission was opening in 2004. Henceforth any recruitment will be in accordance with requisite academic qualifications.

93.7 Procurement

The PPDA issued guidelines for procurements and disposals by Missions abroad meant to address the challenges faced by the Missions in trying to comply with the PPDA Act 2003. However, the following matters were observed:

(a) **Procurement Plan**

According to Section 6 of the guideline, Missions are supposed to prepare annual procurement plans based on the approved budgets and workplan and submit them to the Authority before the end of the first quarter of the financial year.

It was however noted that there was no such plan prepared by the Mission.

(b) **Procurement documents**

It is a requirement under section 90 of the PPDA regulations that all documentation utilised during the procurement process be properly filed and maintained for each procurement undertaken including minutes of contracts and evaluation committees, evaluation reports and bidding documents.

It was however noted that no proper files were maintained by the Mission for the procurements that were undertaken during the year under review.
(c) **Periodic reports**

It is a requirement under section 3 of the guidelines that each Mission prepares and submits quarterly reports on procurement and disposal to PPDA using PP Form 200 for macro procurements and PP form 202 for micro procurements and PP form 201 for disposals.

It was however noted that the Mission did not prepare any of these forms despite the fact that several procurements and disposals were made during the year under review. This implies that management did not fully adhere with the procurement guidelines.

I have advised the accounting officer to ensure that there is full compliance to the procurement law and guidelines.

94.0 **PARIS MISSION**

94.1 **Non-Tax Revenue (NTR) Collections**

It was noted that there were delays in remittances of NTR to treasury by the Mission during the year under review. All the collections for the year were remitted once in September 2010. Besides, there was no acknowledgement receipt availed to confirm that the remittance of Euros.143,000 had been received by Treasury. In the absence of the receipts, I could not ascertain as to whether the funds were actually received by treasury.

I advised management to ensure that all NTR collections are always promptly remitted to the treasury and acknowledgement receipts from the Ministry of Finance and Economic Development obtained accordingly.

94.2 **Fixed Assets Management**

It was noted that the Mission owns several fixed assets. The following matters were observed regarding the management of the fixed assets:-
a. **Fixed Assets Register**

There is no fixed assets register in place to record all mission fixed assets. This weakens controls over the assets owned by the mission.

I advised the accounting officer to open up a fixed assets register to record the following asset details:

- Asset name
- Supplier
- Date of purchase
- Location of the asset
- Condition
- Unique identification number
- Cost/value of the asset

The Accounting Officer has committed to have the asset register opened up henceforth.

b. **State of Mission Properties**

**Chancery Building**

The Mission owns the Chancery Building which is located at 13 Avenue Raymond Poncire, 75116, in Paris. However, it was noted that the building is in dire need for renovation as evidenced from the attached photos which were taken during the audit inspection:

These photos were taken inside and outside the **chancery** building located at 13 Avenue Raymond Poncire, 75116, In Paris, which is a high value street in Paris.
The building is bound to greatly deteriorate further if no urgent repairs are undertaken by management.

I have advised management to liaise with the Ministries of Foreign Affairs and that of Finance Planning and Economic Development, regarding funding for the urgent repairs for the property before it deteriorates further.

The Accounting Officer has promised to follow up the matter accordingly.

94.3 **Stores Management**

Weaknesses were observed in the store management function. There are no proper store ledgers being maintained to show balances of the various store items.

It was also noted that there are no periodic checks of the store items to confirm whether all stored items are properly being maintained. This implies that any errors made by the store keeper may not be easily detected and corrected.

I advised the Accounting Officer to ensure that a proper store ledger is opened to record all receipts, issues and running balances of all store items.

94.4 **Staffing**

a. **Local Staff Recruitment**

According to Foreign Service Standing Orders, the recruitment of all local staff by the missions should be approved by the Ministry of Foreign Affairs. However, for all the staff files for local staff that were examined, there was no evidence that the PS was involved/informed of the recruitment process. This implies that the ministry did not give the requisite guidance regarding the recruitment exercise and staffing levels.

Management should ensure that they adhere to the guideline in future.
In his response, the Accounting Officer promised to consult with the Ministry of Foreign Affairs, on its supervision of the recruitment process.

b. **Performance Appraisals**
A review of the personnel files revealed that the mission did not undertake performance appraisals for its staff during the year under review as required by regulations.

This implies that management was not able to assess the performance of staff and also identify any capacity gaps that the staff may be having.
I advised management to ensure that performance appraisals are undertaken for both local staff and Foreign Serving Officers at the Mission.

The Accounting Officer promised to address the matter henceforth.

**94.5 Procurement**
The PPDA issued guidelines for procurements and Disposals by Missions abroad meant to address the challenges faced by the missions in trying to comply with the PPDA Act 2003. However, the following matters were observed;

a. **Procurement plan**
According to Section 6 of the guideline, missions should prepare annual procurement plans based on the approved budgets and workplan and submit them to the Authority before the end of the first quarter of the financial year.

It was noted however, that there was no such plan prepared by the Mission.

b. **Procurement documents**
It is a requirement under section 90 of the PPDA regulations that all documentation utilised during the procurement process be properly filed and
maintained for each procurement undertaken including minutes of contracts and evaluation committees, evaluation reports, biding documents, etc.

However, it was noted that no proper files were maintained by the Mission for the procurements that were undertaken during the year under review.

c. **Periodic reports**

It is a requirement under section 3 of the guidelines that each mission prepares and submits quarterly reports on procurement and disposal to PPDA using PP Form 200 for macro procurements and PP form 202 for micro procurements and PP form 201 for disposals.

However, it was noted that the mission did not prepare any of these forms despite the fact that several procurements and disposals were made during the year under review. This implies that management did not fully adhere with the procurement guidelines.

I have advised the Accounting Officer to ensure that there is full compliance with the procurement law and guidelines.

### 95.0 TEHRAN MISSION

#### 95.1 Over Expenditure

According to the Statement of Appropriation, management overspent Shs.10,096,000 meant for consumption of property, plant and equipment. However, there is no evidence to show that management obtained authority for the virements or reallocations as required by the existing regulations.

Management attributed the over expenditure on the breakdown of the Embassy computers which inevitably had to be replaced immediately.
I advised management always to strive to adhere to the approved budget. Where additional resources are needed, virements should be sought in accordance with the financial regulations.

96.0 CANBERRA MISSION

96.1 Domestic Arrears

The High Commission incurred new outstanding commitments amounting to Shs.91,733,630 during the year under review. The amount was not reflected in the Statement of Financial Position hence overstating the entity’s net worth. Besides, schedules of the domestic arrears were not availed. As a result I was not able to determine the authenticity of the reported balance.

Management was advised to always abide by the requirement of the commitment control system.

96.2 Un-banked Non Tax Revenue

According to NTR returns submitted, the high commission collected Australian Dollars (Aus D) 93,772.45 out of which Aus D 72,418.87 was banked leaving a balance of Aus D 21,353.58 unbanked. Besides, no evidence was availed to show that the money banked was remitted to Bank of Uganda as required.

I advised the Accounting Officer to always ensure that all collections are banked intact for onward remittance to the Treasury.

96.3 Irregular Payments of Salaries

Foreign Service Allowance and Salaries for Foreign Service Officers were harmonized and consolidated. However, audit of returns revealed that the High Commission still pays both the harmonized FSA and salary. It should be noted that on harmonization of FSA and Salary for home based staff, FSO were re-instated on the local (Ministry) payroll.
The payment of Aus D 67,065.36 as salary to Home Based Staff at the mission on top of the harmonized FSA and salary on the Ministry’s payroll amounts to double payment. The amount paid is recoverable.

96.4 **Office Imprest**

It was noted that the mission draws a monthly amount of Aus D 500 as office imprest. Audit of returns revealed that Aus D 5,500 drawn for the period was not accounted for.

I have advised the Accounting Officer to ensure that office imprest is promptly accounted for.

97.0 **ABU DHABI MISSION**

97.1 **Lack of a Charter**

The Embassy has no charter to describe the intentions of the Embassy and to enable measurement of attainment of set objectives. Though the Accounting Officer has a performance contract detailed in performance form A signed with the Ministry of Finance, Planning & Economic Development, this does not constitute a charter which would provide direction for the whole Embassy including its leadership.

I advised Management to liaise with the Ministry of Foreign Affairs Headquarters to formulate a charter that enables a holist move by the whole Embassy to meeting of set objectives for the year. Management stated that they had discussed the issue with the Ministry of Foreign Affairs and necessary steps were being taken to address it.

97.2 **Staffing of the Mission**

According to the Ministry of Foreign Affairs records the Embassy has an establishment of six staff. It was noted however that the Embassy is staffed
with only two home based staff, a shortfall of 4 staff. This gap in staffing affects the level of efficiency and effectiveness of attainment of Embassy objectives as envisaged by government.

In a written response, Management indicated that one additional staff had been posted to the Embassy to address the issue.

It is important that necessary liaison is continued with the Ministry of Foreign Affairs to enable sufficient staffing of the Embassy if it is to achieve the objectives for which it was set up.

97.3 **Lack of necessary Committees**

The Embassy is newly opened and the year of audit is its first year of operation. It was noted that the necessary committees to enable proper functioning of the Embassy according to Government of Uganda regulations were not in place. These include the Finance Committee and the Contracts Committee.

During discussions, Management stated that the lack of the necessary committees was due to the shortage of staff since it is difficult to set up the committees with only two home based staff at the Embassy and promised to address the issue as soon as the staffing levels improve.

I advised Management to continue liaising with Headquarters on the matter to enable proper constitution of the necessary committees for minimum operation of the Embassy.

97.4 **Rentals**

During the year, Shs.924,745,162 i.e. 53% of the Embassy funds were spent on rent for the two home based staff in the Embassy. The Ambassador is residing in a three bed roomed residence in the outskirts of Abu Dhabi. The location, house status and furnishings all appeared not to be up to the status of Head of mission. It was also noted that the first secretary resides within the chancery building. This appears to be a short term fund saving act which is commended.
However, given that one of the major outputs of the Embassy is the attraction of investment from the UAE region, it is important that the necessary status of accommodation for the senior officials be looked at to enable attraction of the necessary investment. I advised management to liaise with Ministry of Foreign Affairs and Ministry of Finance, Planning & Economic Development to have necessary funding allocated to the Embassy for the activity.

In his written response, Management indicated that the issue of the official residential is being addressed while that of the staff is being handled with the Ministry of Finance, Planning & Economic Development.

98.0  **BUJUMBURA MISSION**

98.1  **Domestic Arrears**

The Embassy incurred commitments amounting to Shs.356,506,234 during the year under review. The accumulation of payables was a result of committing the Embassy beyond the available resources. Furthermore, the amounts could not be verified because the schedule of payable including the source documents were all lacking.

I advised that there was need for management of the Embassy to operate within the available funds.